Mihail Arandarenko

SOCIAL AGREEMENT FOR THE CONTINUATION OF REFORMS IN SERBIA

The honeymoon between the reformers and the people, the so-called period of unusual politics, is over once and for all. Now comes the period of maturity, in which material incentives appear to be much more significant than the moral ones. Although every transition is a story in itself, in many cases the hardest time for both reformers and people is somewhere between the third and the fifth year of reforms. This is the reason for the low survival rate among democratic governments in Central and Eastern Europe after four years in power.

Serbia has already reached the turning point, maybe the decisive moment for further success of reforms, but this is hardly apparent in the spiraling vortex of bizarre political fights. What was successfully achieved in a very short period is the establishment of a strong groundwork for market-oriented restructuring of the economy, reintegration into international financial institutions and the restructuring of the foreign debt, beginning of the European integration processes, macroeconomic stabilization and successful halt to the inflation, the reform of the banking system and taxation reform.

But these achievements cannot be secured for good, as long as the economy is not based on healthy foundations. The restructuring of the real sector, a decisive fight against the outdated social ownership, and market-oriented transformation of public enterprises are key challenges for at least several coming years. Accordingly, cutting into the living tissue of our economy lies ahead, and it could be rather painful. Are we equipped and prepared well enough for such complicated surgery?

The problems that accompany the implementation of reforms are always bigger than can be projected by any strategist before they are initiated. Despite the optimistic messages sent by the Serbian Government, privatization is behind schedule. This is so for several reasons, starting from the world-wide recession, through to regional risks – reasons beyond our control, to the lack of effective domestic demand, limited possibilities on the part of banks to support investors and the growing pains of the newly established capital market.

When surgery and the ensuing recovery take longer than scheduled, the costs merely increase. If anyone assumed that the transitional recession could be overcome through high growth rates which are achieved, as a rule, in post-conflict countries, such hopes soon begin to fade.

One of the major elements lacking is a social agreement. Big trade unions largely agree that even the instruments of social dialogue as prerequisites for such agreement do not function well. The Social Economic Council, composed of the representatives of the Serbian Government, the unions of employers and three major trade unions, founded in August of 2001, has resumed its operations in April of this year, but it seems that there is still a lack of sufficient understanding and confidence between the trade unions and the Government.

However, understanding and trust are the key words for successful social dialogue. In a situation like ours, with a clear lack of balance of negotiating power among the actors of industrial relations, the largest responsibility lies with the Government, as the most powerful actor. Only the Government's offered hand could not be perceived as a sign of weakness.

It should be said that three trade unions in their present form are more than legitimate and respectable partners for the conclusion of a social agreement. Although the data on membership is notoriously unreliable, these trade unions together certainly represent the majority of employees in the formal sector. The Association of Independent Trade Unions of Serbia is expeditiously getting rid of the unwanted image of "a state trade union" and is still the biggest and most developed trade union in terms of both membership and infrastructure. The United Occupational Trade Unions "Independence", with its spotless background and jealously guarded independence from political parties, has done a lot on its organizational and infrastructural strengthening in recent years. The Association of Free and Independent Trade Unions (ASNS), as a member of the DOS coalition, made an active contribution to the establishment of the democratic regime.

A comparative practice in developed countries and countries in transition is acquainted with two basic types of social pacts. The first type is classic and could be called defensive. The main objective of all actors is control of damage, respective distribution of costs generated during the implementation of restructuring measures, or savings among the constituencies of three key social partners (taxpayers, employers and employees).

The second type of agreement could be called offensive, since it is not confined only to the search for compromise in the distribution of costs, but also attempts to define a consensual vision among the actors on a long-term strategy of economic and social development, as well as the resources and ways for realizing that vision. Certainly the best-known example of such an agreement is the one made in Ireland in 1987, which marked out the route towards the spectacular growth achieved in that country in the course of the 1990s. Along the lines of the Irish model, similar pacts are being concluded increasingly often in the European Union under the name of pacts on employment (traditional component) and pacts on competition (new, strategic component).

In my opinion, the second, strategic type corresponds better both to the current moment in our country and to the maturity of actors of industrial relations, in particular of trade unions. The Ministry of Science and Technology has already prepared a two-volume working version of the strategy for development of Serbia by 2010; diligent secretarial studies lack the final touch and clearly defined priorities. Nevertheless, this is an excellent basis for joint work of the Government, experts, representatives of the business community and of trade unions.

Strategic vision is also necessary in order to provide a long-term context for what is certainly the greatest concern of trade unions – the protection of membership from unemployment and poverty. A recent survey conducted by the G 17 Institute in May 2002 showed that over half of all employees in Serbia are in fear of losing

their jobs, where this percentage is even higher in socially-owned enterprises that are scheduled to undergo privatization in the near future. Over one-third of employees assess their professional knowledge and skills as insufficient, i.e. outdated.

Therefore it is not at all unusual, but fully legitimate that a new social program – a slightly unfortunate and outdated phrase – is the principal demand of trade unions. Solutions from the Government's existing social program, adopted in March this year, during a period when social dialogue temporarily died out, could certainly be improved. For example, relying on separate compensation as a major instrument for taking care of redundant labor, with a mechanism for calculating compensation that is too simple and arbitrary and only takes into account years of employment is a solution that has justly been criticized not only by trade unions, but also by experts from international financial organizations.

The advantages of an "offensive" approach to the social agreement become cleared with the example of separate compensation. If a developmental strategy based on modern technologies, know-how and skills, i.e. on productivity growth is chosen, and not one based on cheap labor, then the interest of trade unions will be not to fight for separate compensation that is as large as possible (and always insufficient for durable living security), but for creation of the widest possible opportunities for new employment.

A kind of social agreement that Serbia needs at present should promote and protect productive employment, and not individual job opportunities. The Government and employers, however, would have to accept their share of costs and responsibilities. Key macro-social indicators - such as the unemployment rate, the ratio of employees to the total economically active population, minimum wage, average wage, etc.- should be permanently improved according to the previously agreed dynamic.

A social agreement could be concluded for the period of three or five years. It is important for it not to coincide with the election cycle since one of its major advantages should be its stabilizing role, which is not unimportant in the period of political turbulence that probably lies ahead.

STRANA 2

Understanding and trust – key words for successful social dialogue

Working version of the strategy for development of Serbia up to 2010 – an excellent basis

Trade unions should promote productive employment, and the Government and employers should accept their share of costs and responsibilities

Bilten br. 31

FRY Basic Economic Indicators

	θ 2001	θ 2001 / θ 2000	VII 2002	VII 2002 / VI 2002	VII 2002 / VII 2001	I-VII 2002 / I-VII 2001
GDP growth	…	5.5%	…	…	…	...
Industrial Production[4]	…	0.0%	…	0.4%	-0.9%	-1.4%
Montenegro	…	-0.7%	…	18.3%	2.2%	-10.8%
Serbia	…	0.1%	…	-0.6%	-1.2%	-0.8%
Central Serbia	…	-4.0%	…	2.0%	2.6%	-0.8%
Vojvodina	…	9.2%	…	-5.7%	-8.2%	-0.9%
Average nominal net wage - Serbia in YuD.[4]	5381**	125%**	8,993	4.2%	…	…
Nominal gross wage - Serbia in YuD.[1,4]	…	…	12,952	4.2%	…	…
Real net wage - Serbia, in YuD [2,4]	5248**	135%**	…	3.7%	…	…
Ratio of consumer basket to average net wage[4]	…	…	1.3	…	…	…
Unemployment rate - Serbia, registered[,4]	27.7%	4.4%	27.9%	-0.7%	4.4%	4.8%
Current account in USD million	-624	-87.1%	…	…	…	…
Trade balance, in USD million [4]	-2834	-58.5%	-268	1.9%	40.3%	-4.3%
Export - USD million [4]	1903	10.5%	156	8.4%	-2.9%	6.8%
Montenegro	178	10.3%	3	4.8%	-81.0%	-24.2%
Serbia	1721	10.4%	153	8.5%	6.4%	10.6%
Import - USD million [4]	4837	30.3%	424	-7.9%	18.3%	5.4%
Montenegro	529	49.3%	30	-21.2%	-37.1%	-35.4%
Serbia	4261	27.9%	391	-6.9%	26.1%	12.1%
Money supply (M_1), end of period, in YuD bn	45.16	109.8%	96.37	8.2%	…	…
Cash	15.4	103.4%	35.04	7.5%	…	…
Deposit	29.82	113.7%	61.33	8.5%	…	…
Real money supply end of period in DEM mil.	1483	94.1%	…	…	…	…
NBY hard curr. reserves, mil. USD end of period)	1169	123.0%	1852	1.8%	105.4%	135.8%
Discount rate - monthly level [4]	1.47%	-26.65%	0.75%	-15.7%	-60.5%	…
Market interest rate - monthly level[4]	4.78%	-18.40%	2.61%	-3.7%	-46.8%	…
Retail prices - Serbia	…	91.8%	…	4.1%	18.6%	22.8%
Consumer prices - Serbia	…	93.3%	…	4.3%	15.6%	20.4%
Producer prices - Serbia	…	87.8%	…	5.9%	9.1%	…
Average exchange rate (YuD/EUR) - average	59.45	16.5%	60.78	0.3%	2.2%	2.0%

*Preliminary figures.

** According to the previous methodology.

[1]By the gross wage calculation methodology applied as of June 1, 2001

[2]Deflator is cost-of-living index.

[3] The figures includes the employed in socially-owned sector, private sector and in SMEs.

[4] Figures refer to June.

Radovan Jelasic

THE ROLE OF THE NATIONAL BANK OF YUGOSLAVIA IN THE PROTECTION OF CONSUMERS

The main functions of the National Bank of Yugoslavia (NBY) include monetary policy, the administration of foreign currency reserves, insuring the undisturbed functioning of payment operations, as well as the supervision of the banking system. Each of the mentioned tasks, except the administration of foreign currency reserves, involves some elements of indirect protection of consumers: a.) monetary policy in the form of additional issuing of money, i.e. the maintenance of a stable exchange rate; b.) payment operations organized to provide efficient infrastructure for money orders to be carried out accurately, promptly and cheaply; c.) the supervision of banks in order to prevent bankruptcy, in which depositors also lose a portion of their deposits.

Along with resolving key challenges related to the stability of domestic currencies and the reform of the banking systems, central banks in almost all countries gradually have taken over a significant role in the protection of consumers, users of banking services, with all of these measures being aimed at strengthening the role of banks in financial mediation. Trust is a fundamental precondition for the functioning of banks and it takes years, or even decades, for that confidence to be built. Our recent past is a typical example of how a high level of confidence that had been built for years can be destroyed in several months.

The NBY's objectives with regard to better protection of consumers are:

Education Of Consumers

Due to a serious lack of trust in the banking system, which is partly contributed to by the banks themselves, until recently citizens were full of skepticism each time they paid a visit to their bank. Did they charge me too high a commission? Is the bank playing with my money again? To whom does the bank authorize loans, anyway? These are just some of the questions that even today discourage a great number of consumers. Expectations related to the entry of banks with major foreign capital were unrealistic, as well, not only with regard to credit terms for loans to local economy and natural persons, but also with respect to the scope of their business operations. The development of the banking sector, however, must be always observed within the context of development of overall economic activity, i.e. privatization in our case, as well as of the legal system; without a proper legal system, banks would be left standing on just one foot (generating profit on deposits, but not on loans).

The aforementioned objective can be attained in the following ways:

1. Timely initiation of liquidation procedures in all banks with disturbed indicators of balance. Every user of banking services should be sure that as long as one bank is open, i.e. has a valid license issued by the NBY, it is a "good bank", i.e. a liquid and solvent institution. If only one

liquidation procedure turns into bankruptcy, when, in practice, depositors also lose a portion of their assets in banks, this means that the central supervisory office had reacted too late. A great number of liquidation procedures that were initiated in the course of 2001 resulted from the inconsistent enforcement of positive legal regulations and the lack of desire to make radical moves on time, with the aim of cleaning up the banking system.

2. The deposits insurance guarantees a minimal level of security for depositors in all banks. Almost all countries in the world have built the systems for deposits insurance in order to secure a certain level of intermediation. The existing system in the FRY, which was put in place in 1994 and which guarantees the depositors deposited funds up to the amount of YuM 5,000.00 per bank, is insufficient in the sense of strengthening the mediating function of banks. At present, the NBY, in association with the Federal Agency for Deposit Insurance and Bank Rehabilitation, Bankruptcy and Liquidation, works on the development of a new pattern according to which, taking into consideration per-capita GDP, the average level of deposits and the development of the banking system on the basis of initial assessment, should be at the level of about YuM 200,000.00 per depositor. The introduction of this new system of deposit insurance is due to be implemented in the course of 2003.
3. The provision of a minimum level of transparency of regulations is another way the NBY protects consumers. The users of banking services, not only those with nostalgic reminiscences of banks in the late 1980s, but also those who in the meantime have gotten acquainted with the performance of banks in foreign countries, approach the NBY on a daily basis with complaints about their functioning. Plenty of complaints result from an absence of elementary conditions for informing the banks' clients, for instance, about the general conditions of bank operations, the price of particular services, annual interest rates on loans with all costs included, etc. New decisions made by the Governor of the NBY which are released on the basis of an amended Law on Banks and Other Financial Organizations, already contain elements of these regulations, although they still need to be improved.
4. The informing of consumers about their rights as the users of banking services. Having a need for one or another bank service, every consumer opts for one or another institution. In the case of a minimal level of competition, the best way to express dissatisfaction with the performance of one bank is to change one's bank. The role of the NBY, except for adopting a minimalist codex in relation to its clients, is also to provide all interested clients with information on where a particular service is offered under most efficient conditions.
5. Analysis and disclosure of reactions by the users of bank services. Since dissatisfied users largely contact the NBY, it is important to provide information from all banks on reasons for such reactions among consumers. Every professional bank should react promptly to such

negative situations and use them actively in their marketing campaigns with the aim of attracting new clients. The NBY has been forwarding letters with the consumers' reactions to the performance of particular banks to those institutions for further consideration, without placing them under obligation to return information on the final outcome. By the year's end, the NBY's department in charge of public relations will be reorganized, with the aim, among other things, of dealing more actively with reactions of users of banking services.

6. Timely and detailed informing of the media's representatives on actual events in the banking sector is an equally important element in the education of consumers. The NBY has organized meetings with journalists on a regular basis, outside of regular press conferences of the NBY's Governor, in order to provide detailed explanation of events both in the area of monetary policy and foreign currency reserves, and on the banking system

The NBY can attain the aforementioned objectives both through traditional means, such as laws and decisions, and through more extensive use of modern communication media such as the Internet. On the NBY's website, which was praised by many users in the country and abroad, there is plenty of information relevant for the protection of consumers, although they have not been selected in a separate category so far.

Strengthening of Competition

Stronger competition automatically incites a more active relation towards clients. Only a year and a half since the beginning of reforms in the banking sector, the key question is no longer whether certain services are available, but what the service conditions are, i.e. the price and speed of the offered services. The clients have been brought back to the center of a banks' interest, at the same time presuming that every bank must have a strategy of some kind. The protection of consumers through the strengthening of competition is the market's way of attaining this objective; it lasts longer and is achieved indirectly, but does not violate the fundamental principles of the market economy.

In the absence of independent rating agencies, when auditing reports deserve little attention, and when the issue of protection of consumers has not been raised yet, as a regulator of the banking sector the NBY has an obligation to take an active part in the aforementioned process.

Institutional Topic I

Dr Ljubica Nikolic

INVESTMENT FUNDS – POSSIBILITIES AND CONSTRAINS

Investment Funds and the Serbian Market

The basic reason for individual investors to decide on using the services of investment funds is lack of knowledge and experience in choosing securities for investing and lack of capital. Besides the dispersion of risk, investing in investment funds is attractive because it is more profitable than, for example, time deposits in banks - it is simple and liquid. An investor can sell his/her shares in fund any time and thus obtain cash money. The professional management of investment capital, the diversification of risk, smaller amounts of investments, lower transaction costs, the liquidity of investments, the possibility of investing in foreign markets, possible tax relieves etc. are the reasons why investment funds are attractive worldwide and why they are needed in our country.

The lack of knowledge among domestic investors about business operations with securities and an insufficiently developed market discourage investing in securities and channel free financial assets into traditionally familiar investments. The reason for insufficient exploitation of business operations with securities as an alternative way of investing in our country lies in the fact that expected proceeds from domestic securities are linked with numerous risks because investing is pursued under conditions of incomplete legal regulations and an undefined market, coupled with inefficiency. Every investment in securities bears certain risk, either relating to the concrete issuer or to the general trends on the market. A part of that risk can be reduced through adequate legal solutions: an efficient judicial system and efficient instruments for securing claims. In that sense, establishment of investment funds which would offer quality services to domestic investors is necessary.

Collective investing, managed by professional managers, is an instrument which can stimulate the development of a modern form of capital investment through securities trading. Investment funds are especially attractive for small investors, the dominant group on domestic market. Through the sale of their shares, investment funds provide mobilization of fragmented, dislocated savings and secure their successful investment in securities of different issuers.

The implementation of these institutions in our country will be followed by a certain degree of caution and fear of the new. This imposes a need for a quality law on investment funds to be enacted from the beginning, and not a law whose shortcomings would show through at the very beginning of its enforcement. It is necessary to provide professional managers, as well as to increase procedural and judicial efficiency.

The advantages of investing through investment funds are exploited by countries in transition, as well. The lack of knowledge about operations with securities and

the lack of capital for individual investing are fully apparent to a wide circle of potential small investors, but also to the business community. In some countries in transition, investment funds have had a significant role in the privatization process. In these countries privatization investment funds were founded as special funds aimed at public collection of vouchers, exchanged into privatization shares, with a view to further investment of these shares. The shares of privatization investment funds were bought by vouchers exclusively, and these vouchers were transformed into privatization shares afterwards. For the shares invested in a fund's portfolio (the shares of privatized companies) dividends are usually not paid out. Hence, a privatization fund sells the shares of privatized companies from the portfolio, and with the collected assets pays out dividends to the fund's shareholders, covers the fund's expenses and purchases the securities of other issuers. Since our Privatization Law[1] does not foresee voucher privatization, privatization investment funds in our country would not have the same role as elsewhere. Although privatization investment funds will most probably not be regulated by our Law on Investment Funds, the shares acquired through privatization should be allowed for investing in classic investment funds. Namely, the issue of valuation of shares acquired through privatization should be resolved; these shares should be accepted as a means of payment for the shares of investment funds.

Experience of Neighboring Countries

Due to similar market performances, some indicators from the Croatian financial market can be beneficial for us. Significant groundwork for the establishment of investment funds in Croatia was laid at the end of 1995 with the adoption of the Law on Investment Funds. More serious interest in their establishment appeared in the period between 1996 and 1997, when investment activity on the Croatian financial market was restored again. During that period, investing through investment funds seemed attractive due to the increasing prices of funds' shares. However, further upward trend of funds in Croatia was halted because of the deepening of the crisis on the capital market over the period 1997 – 1998, when the price of securities, as well as liquidity, registered a sharp drop. At the end of 2001 the situation was significantly different. Today, there are many associations for the management of investment funds on the Croatian market, which offer interested investors the possibility of investing in different funds. There are nine close-end investment funds, of which as many as seven are privatization funds. These funds largely invest in state securities and bank deposits, and to some extent in shares. The supply of open-end investment funds is increasingly wide.
On this market there is relatively strong competition for investment funds. They mainly address large and liquid enterprises which have started to make use of the advantages of these kinds of investments. On the other hand, citizens gradually opt for this investment alternative. A boom in Croatian investment funds is confirmed by the following example: ZB Plus and ZB Europlus, money investment funds, increased their value ten times during the first nine months of

[1] Official Gazette of the Republic of Serbia, issue 38/2001

operation - from the initial KRN 20 million to KRN 205 million, and from one client to 1.200 clients.[2] Other investment funds also have attracted substantial capital in several years and are becoming increasingly attractive for investing. They are expected to attract KRN 2 billion in 2002, which is less than 3% of the value of the total national and foreign currency deposits. These figures confirm that the services of funds are still insufficiently used. Big enterprises largely invest in Croatian investment funds, but the reduction of interest rates on time deposits is expected to attract more and more small depositors. The major problem on this market is the lack of securities. Only several securities and the bonds of the Republic of Croatia are traded more actively on the stock exchange, while the first corporate bonds appeared at the beginning of this year. Investment in state bonds is increasing.

In Slovenia, close-end investment funds were set up for privatization needs in the form of joint stock companies[3]. The turnover of shares of these funds on the secondary market was limited for it was subject to the decision by funds on whether to list their shares or not. Management companies largely pursued the policy of absence of secondary trade in shares of these funds. The absence of market control of investment funds was reduced by their efficiency.

Investment funds in the Czech Republic gained control over the major part of the economy. They had significant participation in the process of mass voucher privatization. About 350 funds participated in privatization, which attracted about 70% of citizens' vouchers.

Possibilities and Constrains on the Serbian Market

The development of investment funds in our country should be observed in the context of overall economic reforms. The existence of these funds will depend on the success of these reforms and on the stability of the market. In order to overcome resistance to the new and the unknown, and to set up investment funds as an attractive investment opportunity, it is necessary to meet a range of prerequisites. The first task on that path is the establishment of a modern and harmonized legal infrastructure related to business operations with securities. The development of the entire financial market will be to a large extent determined by the Privatization Law and new legislation (the Law on Investment Funds, the Law on the Securities Market).

Preparation of the Law on Investment Funds is underway. Since new financial institutions are at issue here, and since the existing ones did not inspire much confidence until recently, if at all, the text of a future Law must be formulated carefully in order to inspire confidence among future investors. The future legal framework for the establishment of investment funds must be set so as to maximally protect the interests of individual investors. This is the only way to provide solid groundwork for the functioning of new trust-worthy financial institutions. Hence, activities on the drafting of this Law must be neither too rushed, nor too prolonged. The experiences and legal solutions of other countries

[2] Source: www.croatbiz.com/magazin

[3] The Law on Investment Funds and Management Associations in Slovenia was enacted in 1994.

are certainly beneficial, but the conditions and characteristics of the domestic economy must not be overlooked in the legal regulation of this area.

The issue of establishing and operating investment funds is not regulated in a uniform way in all countries, including EU members. In order to harmonize regulations related to collective investing in securities, the Ministerial Council of the EU adopted a Directive on Coordination of Rules of this type of investing in 1985. The solutions presented in this Directive should be taken into consideration in preparing the future Law on Investment Funds. The general assessment of all laws on investment funds is that they belong to a group of strict laws that specify conditions for establishing an investment fund (high share capital, a permit from the competent state office, etc.), strict criteria for depositors and managers, tight control over business performance, legal constraints on investment of assets of a fund in order to reduce risk (according to the EU Directive, up to 5% of the fund's value can be invested in securities of one issuer and up to 35% into state securities), transparency of operations (reports on business performance), etc. All mentioned requirements are aimed at protecting the interests of investors. Our future Law on Investment Funds should allow the establishment of a professional association for management of funds, tight control of business operations performed by associations and funds, as well as legal constraints for investing the funds' assets. Legal constraints related to investing of the funds' assets could be set for both open-end and close-end investment funds. Such a solution should be adopted in our country, too, given the instability and underdevelopment of domestic securities market. Domestic investors should be allowed to invest both money and securities into investment funds. Investment funds in this region can be a good investing alternative only if the future Law is well-prepared and accompanied by other changes on the financial market as a whole.

The implementation of investment funds is also dependant on the development of institutional infrastructures. This involves: 1.) the development of a financial system, including the establishment of new and development of existing financial institutions and the introduction of numerous and versatile financial instruments, and 2.) resolution of the problem of holders of a title to ownership. A successful privatization is a key factor in the development of a financial market and the economy as a whole. The mentioned tasks are complex and require long-term activities. The main decelerating factor in the development of investment funds in our country is underdevelopment of a secondary securities market. Investment funds are expected to encourage securities trading, but their individual activity in that direction will bring no effect without the activities of other actors on the financial market and macroeconomic incentives. A prerequisite for the establishment of investment funds is that securities are issued and traded on a regulated market.

Unless a coordinated strategy of development of the entire financial market is made, especially of the capital market, expectations related to investment funds cannot be optimistic. There is no market for securities without a stable banking system that is the generator of savings and of the stability of financial systems as a whole. There are no buyers on the stock exchange without financial savings. A

policy of savings stimulation and efficient protection of creditors is the stepping stone for a securities market. Macroeconomic policy, for its part, should stimulate activities on the securities market. Of course, the basis for every economic calculation is political and economic stability. Investment funds involve a lot of small and uninformed investors in transactions on the financial market; which enables more efficient allocation of capital. As far as our country is concerned, this is a major advantage. However, in the first stage of their implementation in Serbia, this form of investing is more likely to be used by enterprises that are better-off.

The constraint for an active and intensive presence of funds in our country is a modest supply of securities. Unless there is a supply of quality financial products, investment funds will have no place for investing. It is therefore important that the state and central bank appear as active participants in securities trading. The state should finance the budget deficit by issuing securities, while the central bank should pursue monetary policy to a greater extent through operations on the open market, and through trading in short-term and long-term securities. Certain monetary effects can be achieved through trading in various types of securities: central bank's bonds, state bonds, central bank's treasury bills, state bills, commercial bills, treasury bills of banks and certificates on deposits. The NBY appeared on the stock exchange with an offer of treasury bills and short-term securities, at the same time acting as a buyer of commercial bills and other securities, but in small amounts. Assuming that state securities bear the lowest risk, they are expected to be the most demanded instruments in the initial stages of investment activities of future funds. The present domestic macroeconomic policy makers seems inclined to motivate the state and the central bank in taking part in the domestic securities market as soon as possible.

Any serious activity of investment funds is unlikely without the stimulation of trade in shares. It is estimated that there are about 250,000 shareholders in our country, and it is in the common interest for these shares to be traded. The shares from privatization should be traded on the stock exchange, despite the problems that might appear with regard to their valuation and oscillations in prices. This is crucial for starting off our shares market. Investment funds will be more substantial if citizens are enabled to invest into funds the shares acquired in the former and the present privatization. This way, numerous citizens, who are largely uninformed, will buy the shares in funds with their shares from privatization, while the funds will manage portfolios thus formed in the interest of all shareholders. It is encouraging that all the rights acquired through the former privatization are recognized. Investment funds can help small shareholders to realize their rights from shares.

The scope of individual and collective investing in securities is closely related to the process of education of the persons who are professionally engaged in securities trading, and informing of the wider public about the possibilities of operations with securities. Investing in funds offers profit, but also bears a certain risk, from a low to a very high degree, which, above all, depends on the type of fund. It is therefore important to inform potential investors of the possible proceeds from and risks of investing in particular funds.

Positive news on our financial market refers to the transformation of the Temporary into the Central Securities Register, an institution that increases the security of operations on the securities market. The Central Register is a prerequisite of security of business operations with securities, not only in terms of registration, but also in terms of clearance and settlement of transactions. The development of rating agencies which would deal with ranking of issuers by their solvency is in the investors' interest. Given the disputes that have emerged between the Commission on Securities and the National Bank of Yugoslavia with regard to securities operations so far, it is necessary to define and distinguish clearly their competence.

The reform of the pension system can have an additional positive impact on the development of domestic investment funds, if pension funds would invest the contributions of their members through investment funds. This would make possible an increase in the assets of investment funds and efficient allocation of capital.

Whether investment funds will attract domestic investors also depends on the possibility of a choice of funds – those least prone to risk would invest in money funds, those ready to take a risk would invest in securities funds, while the brave should be offered mixed funds and share funds. Money market funds are likely to be more attractive on the domestic market in the initial stages of development, since they invest in short-term, highly liquid and low-risk instruments. Investing in funds will depend on accompanying costs, as well. Direct costs include incoming and outgoing commissions, while the management association calculates indirect costs on the fund's assets (compensation to the management association, compensation to the deposit bank, etc.). Indirect costs reduce the total proceeds of the fund, thus affecting the profitability of investment. Investment funds on the domestic market could be attractive if they offer and provide higher proceeds than assets deposited in banks in classic manner. Since tax policy has a direct impact on the profitability of investing in an investment fund, it can be a significant factor of inflow (or outflow) of capital in funds.

The obligation of an open-end investment fund to buy out the shares of all shareholders upon their request raises the question of liquidity of these funds. The survival of these funds in our country will be dependant on the possibilities of funds to fulfill that obligation in a timely fashion. The sale of a part of a portfolio of the fund aimed at buying out shares entails time. In order to bridge that time gap, it is necessary to have a certain amount of liquid assets and the possibility of borrowing from banks and other funds within the same family of funds.

In conclusion, it is important to stress that caution is necessary not only in the implementation of domestic investment funds, but also with regard to foreign investment funds that may invest in our country. Countries in transition have a different position toward international investment funds. (Slovenia is completely disinclined toward them). Significant capital can enter our country through these funds, but the experience of other countries calls for caution. When these funds entered the Russian market, the stock exchange flourished, but when the funds abruptly withdrew their capital due to a fall in the market, the stock exchange was even more shaken. Foreign capital is of outmost necessity for our country, but

this kind of inflow of capital must be associated with stable conditions on the national market. If unstable conditions on the domestic market cause a sudden outflow of money, and international funds withdraw their investments, the domestic financial system will be imperiled. In this sense, pessimistic indicators from financial markets, capital markets in particular, of countries in transition are worrisome. Total proceeds (dividends and capital gain) from shares in the period 1998 – 1999 are negative in almost all transition countries, except Slovenia, Poland and Hungary.

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Liquidity goes with investing in investment funds

Attractive for small investors

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Croatian investment funds on the rise

In Slovenia – joint stock companies, in the Czech Republic – significant participation in the process of privatization

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Strict laws and control with a view to protecting investors' interests

The basis of every economic calculation – political and economic stability

Significant role of the state and the NBY

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Shareholders' rights acknowledged in all prior privatization

Establishment of the Central Register, a precondition for reliable securities trading

Caution with regard to foreign investment funds

Institutional Topic II

Katarina Damnjanovic, M.A.

TRANSPLANTATION AND IMPLEMENTATION OF COMMUNITY LAW IN THE LEGAL SYSTEMS OF EU MEMBER STATES

For EU legislation to take root, it must be transplanted into national legal systems of Member States and follow the development of national legal regulations. Hence, successful resolution of this problem is of extreme importance for efficient implementation of community law. Several fundamental principles for regulation of this matter are defined within the EU legal system, while the implementation itself is under the exclusive jurisdiction of Member States, which is a solution immanent to the regulations of international public law.

I. Principles Which Regulate the Implementation of Community Law

The Participation of National Institutions In the Implementation of Community Law

While the creation of community law is concentrated in the hands of community institutions, they do not have a monopoly over its implementation; this is largely assigned to the institutions of Member States. Hence, it can be concluded that the community legal system, although fully centralized in the area of legislation, is at the same time dispersed in terms of its implementation.
The founding agreements contained a number of harmonized solutions even before the primacy of the principle of subsidiarity was confirmed in the Treaty on the European Union (The Mastricht Treaty); a number of harmonized solutions pointed to the trend of the so-called procedure of indirect implementation, i.e. implementation through national administrative and judicial offices. However, the significance and nature of the role assigned to Member States cannot be systematized by particular models, and is subject to numerous factors, indicating that it can vary in accordance with the orientation of EU institutions to use or not to use their competences; therefore, the cooperation of a Member Sate in the implementation of community law can be organized in various forms and dimensions. As for now, the efficiency of community law largely depends on legislative, administrative and judicial efficiency of national authorities.

The Principal of Mandatory Cooperation of Member States

Founding treaties not only provide for the cooperation of Member States in the implementation of community law, but also establish their obligation in that respect. This is the subject of article 5 of the Roma Treaty (art. 86 ECUM and art. 72 EUROATOM), which says, “Member States undertake all measures, general

or special, with the aim of ensuring fulfillment of obligations that derive from this Treaty or result from the acts of Community institutions. In this way, they facilitate the Union's implementation of its mission".
What is required from a Member State is not passive behavior, but loyal and active cooperation; but in the absence of legal acts, they are obliged to undertake spontaneous measures even if community institutions do not specifically call on them to do so. Accordingly, Member States are generally assigned a subsidiary responsibility with regard to the implementation of community law, and this responsibility can be sanctioned through charges for nonfeasance: "when the implementation of a community regulation requires changes in certain public offices in every Member State, the fact that authorities in question do not undertake necessary measures can be described as nonfeasance according to article 169 EC" (Court of Justice EC, 17.2.1970, Commission against Italy, aff. 31/69, Rec. 34).

Institutional And Procedural Autonomy Of Member States

This principle means that when measures for the implementation of community law are adopted by Member States, they have to observe the rules that result from their internal legislation, in particular from constitutional law, both in terms of determination of competent organs and in terms of procedures that are to be implemented. National subjects in charge of implementation of community law have an obligation with regard to results, not an obligation with regard to means. This rule, in which the expression of a states' sovereignty can be recognized, also indicates an understanding for the actual situation, since community authorities willingly abstain from defining procedures which should be observed by national authorities in their implementation of community law.
Institutional autonomy in the narrow sense – as a free selection of offices and services competent for the implementation of community law - is complete "when the disposition of the Treaty or Directives recognizes or imposes certain obligations on national authorities with a view to implementing community law, with the way in which the pursuance of these prerogatives and the implementation of these obligations is assigned to particular offices by a Member State being resolved exclusively on the basis of the constitutional system of each Member State (Court of Justice EC, 15.12.1971, International Fruit Company).
As far as procedural autonomy is concerned: "in cases when the implementation of a community Directive is assigned to national institutions, it should be recognized that in principle this implementation is pursued with observation of forms and procedures of national legislations" (Court of Justice EC, 11.2. 1971, Fleisckontor). However, with regard to imperative requirements that are immanent to community law, the situation is different: excluding the principles of priority and direct implementation, the Court of Justice emphasizes that the observation of national forms and procedures "should be in accordance with the necessity of uniform implementation of community law" (Court of Justice EC, 6.6.1972, Sclhuter).

Finally, the basic question here is in what capacity national authorities act when undertaking measures for the implementation of community law: whether they represent exclusively the state, i.e. their own prerogatives, or whether they are concerned with the delegation of prerogatives of the Union. Theory and the practice offer the arguments in favor of both opinions.
The answer to this question is especially important because if national authorities act on the basis of community prerogatives, they will not be accountable for the damages that may be produced in the implementation of community law, but accountability will be on the side of the Union. However, the Court of Justice of European Communities persistently rejects this solution (ruling Wagner, Granaria, etc.). Furthermore, the Court clearly declared that when national judges enforce community law, they must act as "a Member State's officials", and not, through functional divisions of prerogatives, as community officials (Simmenthal ruling).
Hence, at issue is a special prerogative of a Member State, which is the best solution, given the legal and political reality of the Union at this moment.

II Normative Implementation Of Community Law

The implementation of community law often requires adoption of normative acts and necessary measures of general character, which, when implemented by Member States, raise some delicate questions both in terms of prerogatives and of legislative technique.

Various Forms of Normative Implementation According to the Nature of Community Regulations

Particular dispositions of the Founding Treaties which are not sufficiently precise or leave some discretionary powers to community or national organs, per force require additional normative enforcement, which is pursued from case to case through directives or national measures.
With regard to directives and decisions which are addressed to Member States, normative cooperation between states is not an exception, but a fundamental principle; it cannot be avoided, especially when directives are at issue. A directive, by its very nature, even if it is directly applicable, must be subjected to national measures. Almost always this is carried out in the form of transplantation through the adoption of supplementary internal regulations. Directives, the main instruments of the procedure of harmonization of national legislations, stipulate either the introduction of community regulations or the removal of certain national regulations, or the adoption of national regulations; in any event, transplantation requires a certain normative activity. However, the implementation of directives does not only concern the creation of national legislation with the same contents: it often requires simultaneous and additional national legislation in terms of specification of ways for implementation, of national offices that are to handle that particular implementation, of the mechanisms of sanctions and control, and of financial assets for implementation. It is known that in practice "the

prerogatives in terms of forms and means", which are explicitly left to "national institutions", are very changeable and have a downward tendency because of the increasing number of precise and detailed directives. Thus, systematic outlining of the terms of implementation with imperative character reduce even more the possible maneuvering space of national authorities. Even when they are free to choose the means, the states must seek the most appropriate solutions in order to ensure beneficial effect of the disposition in question (Court of Justice EC, 8.4.1976, Riyer). In return, national authorities are completely free in the selection of offices that are to be in charge of implementation and of control over this implementation.

With regard to regulations, the possibility of adoption of additional acts might seem surprising at first, because it indicate the existence of incomplete regulations that are quasi-legal acts in their essence and are generally binding. However, normative implementation of regulations exists since the Court of Justice established that, "direct applicability of a regulation does not prevent the text of the regulation from enabling a community institution or a Member State to undertake the measures for its implementation" (Court of Justice EC, 27.9.1979, Eridania). There are two possible ways of implementation: adoption of additional community acts for implementation and the adoption of additional national acts. With regard to the first way, it is necessary to stress that the Council of EU has been implementing new legislative practice since 1964: basic regulations generally contain only the principles of particular areas, and they assign the Council or the Commission to set out precisely and to implement these elements through secondary legal acts (most often regulations), while such hierarchical implementation of normative prerogatives was confirmed by the Court of Justice, as well. In basic regulations the Council should regulate the basic principles in particular areas; enforcement decrees can establish not only the modalities of enforcement, but also "derogations", when they are required by the objectives of such a regulation (27.9.1979, Eridania).

As far as the second way is concerned, i.e. the adoption of additional national acts, it is important to stress that this does not only concern deconcentration, but also decentralization of normative implementation with certain advantages, with accompanying risks. There are numerous regulations of the Council and the Commission that explicitly provide for the competence of Member States in terms of supplementing the adopted community norm with the appropriate measures for their implementation. However, the Court of Justice here pursues much stricter control, because, as soon as the Member States are in charge of not only the implementation of a relatively detail regulation or of adoption of just several enforcement measures, as well as of supplementing the regulation, the uniformity of implementation of the regulation in all Member States is threatened (Court of Justice EC, aff. 57/72, Westzucker, 14.3.973.). In every event, if the decree does not set precise terms in which a Member State should undertake necessary measures for implementation, they must be adopted in "reasonable time".

In certain exceptional cases the regulation explicitly prescribes a number of options, which each Member State must imperatively define within a certain timeframe; thus, this system starts getting closer to the system of transplantation

of directives. Finally, if the regulation does not say anything about it, national authorities have not only a right, but also an obligation to intervene, but their intervention is founded only if a legal gap is at issue.

National Authorities in Charge of the Implementation of Community Law

In federal states and in states with regional organization, at issue is the role of the state itself, which is only responsible to the Union for the implementation of community law, (the Court of Justice EC ruling, 13.12 1991, Commission vs. Italy) and of federal or regional entities to which the Union approves a competitive or exclusive normative competence in certain cases.
In all Member States this concerns the place which will be given to the Parliament and Government. Institutional autonomy, which is recognized for Member States, has not lead to the establishment of special enforcement procedures in practice. In accordance with general constitutional regulations of Member States, enforcement will be assigned to national legislators, i.e. to the Parliament or to the Government, or to other administrative body according to the area in question, what community disposition are at issue, etc.
National legislative procedures, as ways of implementing community legislation, show considerable shortcomings. First of all, the complexity of parliamentary procedure, as well as the risks of delays relative to economic and political development and non-synchronized implementation in Member States result in braking of deadlines, especially with regard to the transplantation of directives, which is frequently sanctioned by the Court of Justice. Among other things, legislative procedure again opens a political debate, putting at risk the fundamental reason for which the community act had been adopted in the first place. Parliamentary sovereignty is certainly ill at ease with the function of implementation of community law, but that phenomenon is even more notable in the Council's practice of adopting directives, which are regulated very precisely and in detail. The only possibility left to the Parliament is simply to approve the proposal if it does not want to challenge the work of the government that adopted the regulation at the level of the community. For these reasons there are frequent malicious reactions by the Parliament: the most famous is the case of the French National Assembly, which rejected the law proposal on the transplantation of the VI Directive on the uniform value added tax, without any consideration and examination of the grounds, which became a precedent in the history of the Fifth Republic.
All these do not prevent the parliamentary manner from being used frequently, in particular for numerous areas that must be regulated by laws in national legal systems (especially in Italy and Germany; in some cases it is unavoidable, e.g. in France in the area of fiscal or criminal matters).
The next method is transplantation through assigning legislative authority to the government. Given the previous remarks, we might understand the interest to introduce procedures which allow the Government to be authorized by the Parliament (delegated prerogatives) to adopt measures, that are otherwise under

the competence of the Parliament, which are necessary for the implementation of community law.
Such delegated prerogatives of executive authorities are sometimes prescribed under the Law on Ratification of Founding Treaties: e.g. in Great Britain, art.2.2 of European Communities Act, which deals with community dispositions that are not applicable directly, and foresees a very wide system of delegated prerogatives. Namely, the Government and ministers are entitled to apply a community law through “an order in council” or a common regulation, even if it requires the modification of the Parliament’s acts. The most important measures (e.g. the introduction of new taxes or severe sanctions) still require the intervention of the Parliament, which is allowed to cancel the measures undertaken by an executive authority within 90 days.
Finally, there is also the so-called direct legislative method. Although known in other countries, this technique is especially wide-spread in France, given the scope of areas that are open for autonomous legislative competence of a government under article 37 of the Constitution. Thus, the adoption of a regulation of the State Council is sufficient for community texts to be subject to criminal sanctions under article 34 of the Constitution and R25 of the Criminal Law. Directives that were subject to so-called legislative transplantation are numerous: (e.g. Decree no. 73-431 of 14.03.1973 in France) which referred to the opening of certain public labor markets and construction markets which was adopted for the implementation of the Directive of 26.7.1971; then, Regulation no. 78-1109 of 23.11.1978 for transplantation of Directive of 05.02.1979, which referred to the approximation of legislation of member states in the area of fruit juices; sometimes, simple ministerial decision is sufficient.
However, the majority of problems in practice are generated with regard to the selection of the form with which the community act will be implemented. The most appropriate turned out to be the one according to which national texts refer to community dispositions, i.e. giving references to the article, act or the set of community acts which have already been adopted or are to be adopted, and which are being executed. This procedure, which implies the origin of a legal act that is being enforced, maximally respects its nature and autonomy.
By contrast, another technique – the reproduction of community dispositions in national texts - leads towards “nationalization”, which may imperil the principle of priority of community law (reproduction is in principle prohibited with regard to regulations – a ruling of the Court of Justice EC of 10.10.1973, Variola). However, the multiplication of references to community dispositions may make the national text completely incomprehensible; this requires the implementation of a method of reproduction which does not produce confusion with regard to the direct legal effect of the regulation. In any event, the Commission recommends the following note to be incorporated in national dispositions “given that this decision partially reproduces a particular disposition of the Regulation no. – in order to provide coherence and understanding of the text, this has no effect on direct implementation of the regulation on national territory (an opinion addressed to the Netherlands’s Government, OGEC L57/86 of 10.01.1971.).

Regardless whether regulations or directives are at issue, it is always recommended that community dispositions are quoted in national texts adopted for implementation (an opinion of the Commission given to the German Government, OGEC L258 of 16.11.1972) and in this way to facilitate the control of harmonization of these national dispositions with the contents of community acts both for individuals and for national courts. It should be mentioned that the French Government, for example, stopped its former practice and no longer rejects quoting relevant directives in the texts of measures that are undertaken for implementation (Decree no. 75-848 JORF of 12.9.1975). Since 1990 there exists *de facto* a final provision that is being systematically incorporated in all directives of the Council, which imposes upon Member States an obligation to refer explicitly to the Directives in national texts which are adopted for adjustment.

Prepared by Dejan Gajic

A Roundtable Organized by the G 17 Institute

THE ADVANTAGES AND SHORTCOMINGS OF GENERAL EVIDENCE
In Relation to the Existing System of Land Registration in Serbia

(Legal and Economic Aspects)

On June 26, 2002 the G 17 Institute organized a meeting of experts on the subject of "Advantages and Shortcomings of General Evidence In Relation to the Existing System of Land Registration in Serbia – Legal and Economic Aspects". The meeting was opened by Aleksandra Jovanovic, Head of the G 17 Institute, Institutional Reforms Department.

Welcoming the participants of the roundtable, Mrs. Jovanovic pointed out that the system of record keeping in Serbia and Yugoslavia was a subject of a prior roundtable organized in the G 17 Institute, when land registers were referred to in the context of problems related to the establishment, organization and functioning of registers in general. This meeting of experts was intended to highlight all problems linked to land registers, as well as the ways in which these problems can be resolved given the positive system of land registration and the system introduced through the Law on State Survey and Cadastre and Registration of Titles to Real Estate. The latest amendments to this Law came into effect on May 24, 2002. Mrs. Jovanovic stressed the importance of well established and accurate registers for an efficient market economy, as well as the role of specific characteristics and the legal tradition of each country in the implementation of laws, which turned out to be a very serious issue in all countries in transition. The roundtable aims at defining major obstacles in our legal and economic environment for the accurate keeping of registers of real estate, at offering answers to the question whether legal regulations, which introduce the system of general evidence, can resolve the problem of incomplete and incorrect data in land registers, how long it takes to implement new regulations, i.e. to update the records, and what are the costs of implementing this new law.

Objective of the Government of the Republic of Serbia – Registration of all Real Estate and Establishment of General Evidence in the Near Future

Dragoslav Sumarac, Minister of Urbanism and Construction in the Government of the Republic of Serbia informed the audience on the actions taken by the Government with regard to the updating of real estate registers.

According to the information collected by the Ministry of Construction and Urbanism, 67% of the territory of the Republic of Serbia is covered by the cadastres of land, 23% is recorded in land registers and 10% is recorded in the

cadastre of real estate. Despite various different data on this issue, Minister Sumarac assumes that the evidence is not accurate even in the regions covered by land registers and cadastres of real estate considering the extensive illicit construction over the last ten years (over a million buildings built without construction licenses). With the objective to update the records of real estate, the Government of the Republic of Serbia set up a Commission for Creation of Real Estate Cadastres; the Commission is headed by Zoran Djindjic, Prime Minister of Serbia. At the same time, the Commission launched a campaign, calling for the owners of private buildings to contact the Ministry in order to register their real estate in land registers. The main reasons for a decisive campaign refer to the process of privatization and the creation of conditions for getting mortgage credits.

Minister Sumarac than briefly presented modifications and supplements to the Law on the State Survey and Cadastre and Registration of Titles to Land, stressing that this does not mean the revocation of land registers, but general evidence will be incorporated into the cadastre of real estate. Also, the conditions will be created for the establishment of private survey companies for fieldwork, which will certainly increase the speed and efficiency of real estate registration. Minister Sumarac underlined that, in spite of debates about land registers and real estate cadastres, the most important thing is to implement the adopted Law fully.

There are three categories of buildings that are not recorded in land registers. The first category includes buildings constructed with all licenses and they can be recorded immediately. The second category are buildings which cannot be called illegal, but in relation to which all the obligations deriving from the positive Law on Planning and Building have not been met yet due to the high costs of construction land organization (survey and registration). In order to facilitate the record keeping of this category of buildings, the Government is soon to propose an omnibus law, which will slightly interfere into the legislation related to construction and utilization licenses that are under the competence of particular Ministries. There is also the third category of buildings with unresolved property relations regarding locations on which they were built (green surfaces, common land, somebody else’s land). This issue will be resolved within new regulation plans and under the new Law on Planning and Construction (which is to enter Parliament in September).

In conclusion, Minister Sumarac pointed out that the Government’s priority is land registration of all buildings, especially of those with construction and utilization licenses, while with regard to the rest of the buildings, the accompanying legal procedure needs to be changed. Modifications and supplements to the Law on the State Survey and Cadastre and Registration of Titles to Land should smooth the way for the completion of general evidence in the near future; without general evidence, there is no privatization and mortgage credits and this is in the interest of the owners of these buildings and flats.

Numerous Reasons for Inaccuracy of Land Registers

Gordana Mihajlovic, President of the Second Municipal Court discussed the accuracy of land registers from the professional and practical perspectives.

As far as the accuracy of registration in land registers is concerned, there are two problems that can be discussed: the accuracy of land registry courts and accuracy in terms of record-keeping of real estate on the territory under the competence of the Second Municipal Court, which covers all Belgrade municipalities except Novi Beograd and Zemun. Mrs. Mihajlovic stressed that the Second Municipal Court has achieved a 10-day accuracy rate at present, with the possibility of acceleration if it is needed in particular cases.

To explain the problems which occur in relation to inaccurate registration and relatively poor records of real estate, Mrs. Mihajlovic first gave the definition of the term of real estate. Only after construction and utilization licenses are issued for one particular building, it can be treated as a subject of legal relations, while otherwise it is only a set of construction material which may be demolished at any moment after an order by the survey inspection is issued. There are numerous reasons why such a large number of real estate has not been registered, and the majority of these reasons are related to material regulations which are the basis for land registration.

As for the land on the territory of the Second Municipal Court, i.e. in Belgrade, all cadastre lots on which the users are registered are recorded. The majority of these lots are municipal construction land that was nationalized under the 1958 Law. Those nationalized lots were very accurately recorded in land registers in terms of when nationalization was carried out, what lots were nationalized and according to which municipal decision.

With regard to buildings, the situation is different, in the sense that they are not registered as accurately as the land. There are many reasons for this, from the former system that stimulated illicit construction, lack of urban planning for all areas in Belgrade which resulted in the impossibility of issuing urban licenses, lack of accurate records of judicial decisions on allotting, i.e. exclusion of land, which is the basis for issuing a construction license, and later the basis for recording a building constructed on the lot, where the utilization title is recorded on a different user; frequent lack of construction and utilization licenses which results in the impossibility of registering the building; inaccurate documentation, poor archives, lost files in municipal offices; ten years of isolation and poor economic life also had a negative impact on the updating of land registers and record keeping of the tiles to real estate in general, etc. In Mrs. Mihajlovic's opinion, it does not matter whether the record keeping of titles on real estate is carried out by land registry courts or administrative officials, since the assessment on the fulfillment of all material conditions for registration is not necessary.

In conclusion, considering the interest of courts to maintain land registers under their competence, Mrs. Mihajlovic stressed that a small number of legal experts is familiar enough with land registers, while the land registration procedure is a kind of out-of-court procedure. At issue is a very delicate and complicated procedure that provides legal certainty not only because it is pursued by courts, but also because registrations must be supported with appropriate

documentation, which must not be overlooked and circumvented regardless of the current and future interest of the Government and citizens. In Mrs. Mihajlovic's opinion, there is no need for dislocation of the records that have been kept in land registry courts so far without any special problems to the Republic Survey Bureau, especially when we have large areas in Serbia with no records of real estate titles at all. The issue of general evidence should be tested on those territories with no records at all, and only then eventually to dislocate land registers from courts. Finally, our material legislation direct the entire procedure of registration of titles on real estate more towards courts than towards administrative officials because it is not certain to what extent administrative offices will be abele to assess whether the prerequisites for registration have been fulfilled and to pursue a constructive role in the acquisition of ownership, Mrs. Mihajlovic concluded.

Advantages and Shortcomings of the System of Land Registration and the System of General Evidence

Miodrag Orlic, professor at the Faculty of Law in Belgrade, began his discussion with an opinion that the introduction of land registers and the Serbian Civil Code has been a "Serbian dream" since 1844, and raised the question of what prevents us from realizing that dream. In Professor Orlic's view, the obstacles in the past were related to political dogmas and fixed ideas, but now he realizes that the problem is much deeper – it is "a fear of reaching the civilization level of Europe".

Professor Orlic gave a classification of the most famous systems of real estate registration: the so-called Torens's in Australia and Canada; the French system and the German-Austrian-Swiss system, to which the system of land registration in our country belongs. While in other systems registers only record an ownership right, in our system the title is acquired through land registration. Ownership right to movable property is acquired at the moment of delivery, while the ownership right on real estate is acquired only when it is recorded in land registers. Our, i.e. the Austrian-German system, as Professor Orlic underscored, has great advantages in comparison with other systems since it provides the possibility for examination of the acquisition title and offers strong legal safety.

In Professor Orlic's opinion, land registers coverage in Serbia exceeds 23% of the territory. This is the figure from 1976-77, when the campaign for the introduction of general evidence was launched, and refers only to the territory of Serbia without Vojvodina and Kosovo. Given the Serbian territory of 56,000km2, and the territory of Vojvodina of 21,000km2, which is completely covered under land registers, the overall coverage in Serbia exceeds 42%. This percentage refers to the most developed parts of Serbia in economic sense: Vojvodina, Belgrade, western Serbia and Nis, areas on which about 70% of the economic potential of Serbia is concentrated.

The fixed idea and the political dogma which prevented the establishment of land registers in Serbia during and after World War II is that land registers and mortgage were comprehended as symbols of capitalism and therefore had to be

destroyed. Reasons referred to today are that the system is outdated and inaccurate, although it is more our fault that land registers are inaccurate and the consequence of systematic suppression, which is confirmed by the situation in Germany and Austria in this area.
Arguing the reasons referred to as advantages of the system of general evidence in comparison to the system of land registration (it is new, more efficient and better), Professor Orlic stressed that in Germany and Austria land registers are kept by courts, while factual evidence is kept by Survey Offices; “subtle and complex issues of mortgage rights cannot be dealt with by officials who are not professional judges or lawyers. He also pointed out that land registers record both ownership rights and mortgages, while mortgages can be approved only by registered owner.
In conclusion, Professor Orlic stressed that the system of land registers in our country had been established a long time ago, it has a long tradition, it is reliable and citizens got used to it. This system provides very strong legal certainty, which is required by domestic and foreign investors. In his opinion, instead of experimenting with a system that does not exist anywhere else, our country would generate much more confidence by establishing a system of land registration both with international financial organizations and foreign investors. In favor of this system is also the slowness of establishing general evidence, although it was considered that it could be established rather fast and easy. The Kingdom of Yugoslavia established the system of land registers on the mentioned territory between 1930 and 1941, while efforts for establishing general evidence started in 1988 and are still continuing.
Professor Orlic concluded his discussion with a remark that he expects the new authorities - now with new trends that appeared, when the horizons of democracy are opening, when the rule of law and judicial independence are at issue - to call for the supporters of both approaches to discussion first and only then to make a decision. But the decision was made before the debate even started.

It Is Necessary To Organize the Record of Ownership

Stevan Marosan, Deputy Director of the Republican Survey Bureau said that Serbia needs the record of ownership and the question is who is capable of making such evidence.
The lack of the record of ownership results in the impossibility of establishing a real estate market and the consequent absence of investments. The Republican Survey Bureau, having consulted GTZ, a German organization for assistance to third countries, decided to close temporarily the debate on land registers and real estate cadastres until the cadastre of real estate is formed first. After that a debate can be opened on improvements and new forms of that type of record in order to make it safer and more efficient.
In his introductory remarks, Mr. Marosan stated the arguments that prompted the Bureau to propose supplements and modifications to the Law on the State Survey and Cadastre. The main objective is to establish institutions of the German type, because enforcement of their laws in our country is not possible

without appropriate institutions. Another objective is to distinguish administration from operative staff and to leave operative activities to the private sector which is to be formed, with expeditious establishment of ownership evidence that is underway.

At the beginning of his presentation, Mr. Marosan pointed out that the first Law on Land Cadastres was adopted in 1928, followed by the 1930 Law on Land Registers, which was introduced in the period 1927-33. The General Law on Survey and Land Cadastres was adopted after the war, in 1965 in the then socialist system, but the establishment of land registers was obstructed and therefore it is not present on the whole territory of Serbia. Then, in 1992, the Law on the State Survey and Cadastres was enacted for several reasons: due to the principle of disposition, land register does not follow all changes and the cadastre of land does not contain all information about real estate. It is not true that the system of general evidence is unknown in the world, because the recommendations of the World Survey Organization and its Commission 7, and the Economic Commission for Europe within the UN supported the cadastre of real estate as the future system of record keeping which should be established in Europe by 2014. According to the data of the Bureau, the cadastre of real estate has been established on 13% of the territory of Serbia and should expand to 20% in this year and to 50% by the end of next year. In Mr. Marosan's opinion, a small percentage of the established ownership evidence, which is comprehended as the main reason against general evidence, is not correct because it concerns a period of decline in the country, with no real progress. It is true that the system of land registers was obstructed, but this is also true with regard to the establishment of cadastres.

A comparative presentation of the functioning of land registers and real estate cadastres (on the example of Kragujevac) followed. With regard to land registers, there is a notable low degree of information technology, qualification structure of employees (secondary education), bad condition for documentation storage, all work is manual (certified copies). In the case of real estate cadastres in Kragujevac, there is a very high degree of information technology. The cadastre data, as well as the entire accompanying documentation is kept in digital format: copies of plans and real estate sheets are available immediately because they are easily accessible (printed). The database of the real estate cadastre in Kragujevac is available to public utilities and other municipal offices. The same has been undertaken in Novi Sad, where the whole procedure is being carried out experimentally.

Mr. Marosan reiterated that Serbia needs ownership records. Courts are not capable technically, organizationally or professionally to establish this evidence, but the Bureau is ready to discuss eventual improvements with courts after this kind of record keeping begins..

Cadastre of Real Estate is Compatible With Land Registers

Srbislav Cvejic, Deputy Director of the Republican Survey Bureau agreed that the situation related to the records of real estate on the territory of Serbia is very bad.

Mr. Cvejic presented several facts related to land registers. There are no problems with record-keeping on the territories on which land registers are accurate, but they appear with regard to territories south of the Sava and the Danube, where the existing land registers are inaccurate. Furthermore, the reason for the speedy establishing of land registers before the war lies in the fact that there was less real estate, as opposed to today. The principles of the system of land registration are emphasized as their advantages are indisputable, but it is also true that the cadastre of real estate has taken over all institutes of land registers, and therefore it can be safely concluded that it is compatible with land registers.

Mr. Cvejic explained several advantages of general evidence, i.e. the cadastre of real estate. The cadastre of real estate has an advantage in a nominal sense, since under positive regulations, on the territory of Serbia the cadastre of real estate is being established and in particular cases it is taking over land registers, depending on financial means. The Budget of the Republic of Serbia has allocated a little under EUR 500,000 for the creation of cadastres in the last five years, while, according to the projects of the Republican Survey Bureau, about EUR 200 million are required for the cadastre to cover the entire territory of the state. Another advantage refers to the fact that the Bureau has equipment and human resources for this task. Each department of the cadastre of real estate has a systematized and filled post of qualified legal experts who passed the state exam. A special advantage is the possibility of speedy establishment of real estate cadastres in areas already covered by the cadastre of land, and does not concern municipal construction land. According to assessments made by the Bureau, Serbia has over 50% of such land, and the Law set the time frame of three years for the establishment of real estate cadastres on this land. The prevailing reasons in favor of transformation of land cadastres as the records of users, to the cadastres of real estate as the records of ownership are: firstly, a small number of disputes over correctness of registration in land cadastres (annulling litigations); secondly, although it does not have the significance of a legal record, the cadastre of land is largely used by courts and other state offices when making decisions in property–related disputes (although this is a departure from normative and judicial practice) and finally, the certificate from a land cadastre, i.e. ownership sheet serves as a valid document recognized by international forces in Kosovo and Metohija in order to protect property rights of our citizens. The land register is no more reliable than the cadastre of real estate. The example of Kragujevac, which made the furthest progress in the establishment of the cadastre of real estate, shows that no annulling litigations have been initiated since 1992, which means that the cadastre of real state enjoys the citizen’s confidence. The courts in some municipalities south of the Sava and the Danube, which are covered by land registers, often use the data from the cadastre of land when settling property relations due to inaccuracy of land registers.

In conclusion, Mr. Cvejic pointed out bad cooperation between certain Land Registry Courts and the Republican Survey Bureau, i.e. its organizational units. The Law on the State Survey and Cadastres strictly laid down the obligation of Land Registry Courts in forwarding a land register to the Bureau upon its request. Despite numerous interventions of the organizational units and even of the Ministry of Justice, some land registry courts do not observe this legal obligation, which slows down the establishment of the cadastre of real estate, Mr. Cvejic concluded.

Practical Solutions are Urgent for Banks and Enterprises

Aleksandar Milosevic, senior associate of the National Savings Bank focused on practical aspects of the problem.

Mr. Milosevic stressed that the conflict between the land registry and cadastres is unnecessary, impractical and a poor excuse for doing nothing for a long time. The land registry and cadastres should cooperate, at least now, when plenty of problems have cumulated and need to be resolved. Mr. Milosevic pointed out that in our country several systems are in force: the system of land registration, the system of cadastres and the system of registers of deeds. The problem does not lie in the existence of several systems, but in the fact that the majority of them do not provide valid information. Only the land register and cadastres established according to the new law, unlike other systems, provide necessary information (ownership certificates). Accordingly, it is necessary to have one or more registers that will provide reliable information both to domestic and foreign economic subjects. There is also a wide range of laws that regulate this matter, including bylaws and the laws that are enforced as legal regulations from the 1930s; such legislation is not attractive for foreigners and must be unified.

Mr. Milosevic highlighted the concrete issue of mortgages. Only in the late 1980s economic subjects started to burden their real property with mortgages among themselves; until then it was inconceivable to mortgage social ownership. The problem of registration was noticed already in the early 1990s; in order to resolve it, the first Law on the State Survey and Cadastres and Registration of Titles to Real Estate was enacted and it stipulated the 10-year term for this problem to be sorted out. This term has been prolonged several times, but nothing has been done. Banks, which were affected most by the problem, have offered a number of initiatives since 1991. The first offered solution was the introduction of the institution of fiduciary transfer of real estate ownership rights as collateral for a debt. This solution worked for a while, but courts deemed it void, although it was a chance to overcome the problem of real estate not recorded in land registers. In 1991 Montenegro enacted the Law on Fiduciary Action and constituted the appropriate registers, thus largely overcoming the problem which we are still facing today. Furthermore, in 1993, at the initiative of banks, the procedure for constituting registers was started; a working group completed its work and defined the draft of a register, but it has never entered parliamentary procedure.

Discussing possible solutions, Mr. Milosevic stressed that a certain degree of pragmatism is needed here, but also particular transitional solutions. Given that

the problem of mortgages is very urgent, both for investments and for the functioning of banks. It is possible to design a completely new register, but this is not justified since the entire matter was completed in detail in 1993, with the set of rules and a new register for registration of real estate which is not recorded in land registers. Since the register for record keeping of mortgages on flats with regard to purchase has already been established, Mr. Milosevic suggested that it could be used for prompt registration of mortgages. If we wait for a political agreement to be made, and for the proposal to be prepared, drafted and put into parliamentary procedure, etc. the solution will not be found for a long time, while banks and businesspeople need it urgently.

The relation of land registers to cadastres should be a relation of cooperation. Land registers should be maintained because courts do their job satisfactorily in this area, and would only be improved through computer processing. Only after practical problems be resolved, the establishment and introduction of particular institutes can be considered, together with unification of legislation and the establishment of a uniform register, Mr. Milosevic concluded.

Land registers should stay, and general evidence established first in areas not covered by land registers

Beginning the discussion, ***professor Orlic*** made a few comments. He stressed that the percentage (21% of the territory) and the territory covered by land registers in Serbia are not in compliance. Underlining once again that this percentage refers to Central Serbia only, but when Vojvodina is included, it increases up to 40% (between 42% and 46% depending on the source). Secondly, after separation from SFRY, Croatia and Slovenia established land registers and therefore they will be at an advantage on the market in terms of legal systems compared with Serbia, if we opt for general evidence. Professor Orlic also believes that there should be no contradictions between land registries and cadastres. A reasonable proposal is that general evidence be introduced in areas which are not covered by land registers, and then to examine which system is better in practice. Professor Orlic reiterated that different solutions to this problem should be reconsidered once again, because this seems a departure from a very important civilizational achievement, such as the system of land registers, for reasons that are not good enough, and he expressed his resent for the unfair attitude toward courts.

Dubravka Savic, lawyer, pointed to numerous practical questions related to land registers and the cadastre of real estate, and stressed that land registers should stay, because, with regard to certain issues, they function better than cadastres, but with simultaneous procedure, the record of real estate could be completed much faster.

Mirjana Blagojevic, lawyer, is also in favor of preservation of land registers, and considers that the trend of revoking land registers is unjustified because the cadastre of real estate in Belgrade, for example, does not function well due to poor human resources, slowness of their work, high fees, uncoordinated work of particular departments of the cadastre of real estate. In conclusion, Mrs.

Blagojevic pointed to some practical perplexities, such as the question of the registration of a dispute related to particular real estate, the lack of legal safety in terms of legal sequence, as well as to the advantages of land registers as compared to the cadastre of land (collection of documents, copying of contracts).
***Aleksandra Mirosavljevic**,* Director of the Reiffeisen Bank Legal Department, said that the name of a register is not important if it can provide information on the type of real estate, its owner and eventual of charges on it. The basis for both systems is the cadastre of land. In order not to waste precious time, energy, means and to avoid starting from the beginning again and again, land registers should stay, because wherever they exist they function well, but 63% of the territory of Serbia is registered in the cadastre of land, without the record of real estate, which should be set as a priority. Mrs. Mirosavljevic concluded that this is not the right moment for the replacement of land registers, but for the sake of investors, practice rather than theory should be in focus.

General Evidence as A Misconception

Malisa Zivanovic, survey engineer, began with the overview of historical development of the idea of general evidence. First proposal of the Law on Cadastre was prepared on Corfu as early as in 1918; this proposal provided for the unification of land registers and the cadastre of land into one register which would be kept by the cadastre office. The debate on this proposal took ten years and was abandoned in the end, because of the opinion that it is wrong to unify the record keeping on legal issues and technical, i.e. factual records, which are kept by the cadastre of land. This idea failed once again in 1945 and finally, in 1974 the proposal on establishment of general evidence was adopted by the Executive Council of the Municipal Assembly at the initiative of the Municipal Survey Bureau. The first Law on General Evidence was enacted in 1988. This law prescribes general evidence to be established on the whole territory of Serbia in ten years, together with surveying of all changes in the field and presenting the survey data to citizens and legal entities; general evidence was to be kept by an administrative office. Since the establishment of such evidence encountered huge problems in practice, later modifications of the Law simplified its basic text. Thus, in 1992 a new law was adopted, which postponed the term for the establishment of the cadastre of real estate for the following ten years. This term expires in 2002.
According to the first data, general evidence exists on the maximum of 5% of the territory, not on 9% as it is claimed. Of over 400 cadastre municipalities, only 3% of cadastre municipalities are completed, while in the rest, only a part of the work has been completed. The collected information is of insignificant value because the covered territory is not compact. In Mr. Zivanovic's opinion, the latest modifications to the Law in May 2002 are accompanied by catastrophic mistakes: in order to speed up the establishment of the cadastre of real estate – non-existence of land registers is introduced in cadastre municipalities in which the land registry recorded no change within one calendar year. In his opinion, the main reason for the lack of foreign investments in Serbia is not the impossibility

of charging one's ownership with mortgage, but the lack of a Law on Denationalization. There is also a misconception that mortgages are one of the major reasons for accelerated work on the cadastre of real estate, because the same registration conditions are required for both land registers and the cadastre of real estate. Under the 1988 Law, it is stipulated that all changes are to be surveyed, while the latest modifications to the Law prescribe only the copying of the existing cadastre of land without taking into consideration new changes; the question arises what benefits this will bring to the state.
Mr. Zivanovic stressed that the system of general evidence is a great idea, with only one shortcoming - it is not feasible the way it is set out. However, the same outcome could be achieved if the cadastre of land completes its part of the work, i.e. its database, and land registry courts complete their databases; the information from these two sources should then be unified and kept as one.

Establishment of the Cadastre of Real Estate Represents an Overhaul of Land Registers

Aleksandar Bjelica, director of the Center for the Cadastre of Real Estate, Novi Sad pointed out that the organizational unit of the Republic's Survey Bureau in Novi Sad covers 26 political municipalities on the territory of Backa and Srem; all these municipalities have land registers.
Supporting the idea of the cadastre of real estate, Mr. Bjelica stressed that the cadastre of land and land registers are two kinds of records of the same real estate, which means that the elements of real estate of which the cadastre is in charge must be forwarded to land registers, which will pursue the registration of the title to real estate. At present there is a gap between these two types of records, which resulted in numerous abuses. Through the establishment of the cadastre of real estate, the entire evidence, both legal and technical, will be situated in one and the same place, which will avoid loss of time. The establishment of the cadastre of real estate generally means an overhaul of land registers since the cadastre of real estate observes all principles of the system of land registration. On territories covered by land registers, the contents of land registers and cadastres are compared, and if any discrepancy is observed, revisions are made with supplements to the existing records. On the territory of the Center of the Cadastre of Real Estate of Novi Sad, 24% of the cadastre of real estate has been completed. As far as the publication of data is concerned, Novi Sad participates in an experimental project on the distribution of data over the Internet. All interested citizens can have insight into the information on real estate with daily accuracy in the Town Construction Bureau and in the public enterprise "Informatika" in Novi Sad. This project is carried out by the Faculty of Civil Engineering in Belgrade and the towns of Novi Sad and Kragujevac, where this system should begin soon. The next stage of this project is the availability of data over the Internet first to all public institutions, and next year to all other interested persons under certain conditions.

Cadastre of Real Estate in Kragujevac – Idea Put to Practice

Zoran Jovanovic, Director of the Real Estate Cadastre Office in Kragujevac presented the experiences of this office since 1992. There are 44 cadastre municipalities in Kragujevac for which the cadastre of real estate has been completed and land registers canceled; there are about 42 rural municipalities and two urban municipalities. In two urban municipalities (Kragujevac I and Kragujevac 2) the restoration of the survey was carried out, as well as the digital cadastre planning and new recording of the cadastre of real estate, while while land register has been revoked, which is a unique case in our Republic. Interested parties can get the certificate or copy of a plan immediately due to automatic data processing. During the ten years of work on the maintenance of the survey and the cadastre of real estate, there were no disputes, but quite the opposite – there is excellent cooperation with the municipal court and with town authorities and clients.

According to such experience and to the advantages offered by the cadastre of real estate, Mr. Jovanovic believes that the land register has no prospect. The extent of accuracy of land registers with regard to registered buildings since its foundation in 1935 up to now is lower than 5%, while the cadastre of real estate, from the 1990s up to now has completed 13%. Another fact in favor of the cadastre of real estate is that the existing evidence, both in the cadastre of land and in land registers, is being updated through the procedure of creation of the cadastre of real estate, resulting in new, modern evidence which is economical, reliable and efficient, Mr. Jovanovic concluded.

Not to Forget the South of Serbia

Nebojsa Nesic, director of the Center For the Cadastre Of Real Estate, Nis, stressed that the Center of Nis encompasses 23 political municipalities with 1156 cadastre municipalities; only in 11 cadastre municipalities, i.e. on some parts of these municipalities, land registers were established. In all other cadastre municipalities, citizens, courts and other state officials are referred to the data from the cadastre of land, i.e. the record of users. It is necessary to establish new records, i.e. the cadastre of real estate as soon as possible, especially in areas which are only covered by the cadastre of land. Mr. Nesic concluded that investments in cadastres are minimal and the situation is much worse than in other state offices; he called on the improvements of working conditions in cadastre offices.

Fierce Debate, Perplexities, Practical Questions

The debate raised many practical questions with regard to the restitution of property, denationalization and other issues which are to various degrees related to land registers and cadastres. Apart from those already mentioned, the discussion was also joined by ***Emir Jasarevic***, lawyer, ***Stevan Marosan, Srbislav Cvejic***, ***Nebojsa Bozinovic***, survey engineer and ***Goran Mihajlovic***.

Conclusion

Aleksandra Jovanovic, thanking the audience for attending, concluded that in spite of diverse opinions, some common positions and common solutions could be found that will enable the best use of elements from each system. Through the organization of this gathering, the G 17 Institute attempted to assist in defining one consistent framework of reforms, to help in their monitoring and, to offer concrete answers to the questions on how to organize most efficiently the records of real estate.

Editor	Dr Mirosinka Dinkic
Prices	Jelena Momcilovic
	Aleksandra Brankovic
Wages	Jelena Momcilovic
Labor market	Jelena Momcilovic
Pensions	Iva Jovanovic
Production and services	Aleksa Nenadovic
Foreign trade	Aleksandra Brankovic
Monetary policy And public finance	Aleksa Nenadovic Iva Jovanovic

Macroeconomic Review

Changes in Regional Trade Patterns

Prices

As an integral part of the stabilization of macroeconomic policy in 2002, a correction in the price of electricity was made in July. Electricity prices increased by 52.4% on average, bringing about inflation growth. Retail prices were up by 4.1% in July month-to-month. The prices of goods grew at a faster pace than the prices of services – the growth rate in the price of goods was 4.8%, compared to June, while the prices of services were up by 0.2%.

Retail prices increased by 8.5% compared to December 2001, or by 18.6%, compared to July 2001.

With regard to groups of products, industrial products displayed a growth in prices by 5.5%, while agricultural products registered a deflation due to seasonal impacts. The price of agricultural products was down by as much as 7.5%, relative to June. As for industrial food products, retail prices were up by 0.2% on average, relative to the previous month.

Consumer prices in July registered faster growth than retail prices, due to the mentioned increase in the price of electricity, and reached a growth rate of 7.4%, while, year-on-year, consumer prices increased by 15.6%. The growth in consumer prices primarily resulted from the 51.7% increase in the cost of housing in July, month-to-month. On the other hand, food costs dropped by 1.4%, relative to June, primarily owing to the decrease in the price of agricultural products.

Industrial production prices increased by 5.9% on average, compared to June. This group of products registered a total price growth of 5%, compared to December 2001, or by 9.1% year-on-year.

With regard to the destination of consumption, all groups of products displayed a growth in average prices relative to June. The largest growth was registered in the prices of consumer goods (8%), while the prices of intermediate goods and consumer goods displayed a slower growth rate of 3.8% and 0.2% respectively.

GRAFIKON

Growth rate in prices of goods and services in Serbia (January – July 2002)

- *goods*
- *services*

Wages and pensions

The average nominal net wage in June was YuD 8,993, displaying a growth of 4.15%, compared to the previous month. In real terms, i.e. when the nominal wage is deflated by the consumer price index, which was up by 0.4% in June month-to-month, growth in wages amounts to 3.73%. Nominal net wage in the economy in June was YuD 8.639 and in non-economic activities YuD 10,068, which indicates a nominal growth by 4.2% in the economy and by 3.9% in non-economic activities. With regard to the average wage from June 2001 (when a new calculation methodology based on gross wage principle was first applied) to December 2001, compared to the January-June 2002 average, the average nominal net wage increased by 18.7%. The consumer basket in June was valued at YuD 11,940, being up by 3.3% month-to-month. The ratio of the consumer basket to the nominal net wage, being 1.3, remained at the previous month's level. With regard to the wage in June 2001, when the new accounting methodology began to be applied (the data on working-hour food allowance, recourse, etc. are added into the wage calculation), the real wage in June 2002 was up by 44.3%, while, compared to December 2001, the real wage growth rate averaged 3.25%.

A pension paid out in July by the Old Age Pension and Disability Insurance Fund of the Employed averaged YuD 6,388, which is nominally up by 3.2% month-on-month, but in real terms, it was down by 1.1%.

The purchasing power of the average pension remained unchanged in June. The ratio of the value of statistical consumer basket per household member and the average pension in June was 0.48, indicating that about half of the average monthly pension paid out in June was needed to cover the food and beverage costs included in the consumer basket. This indicator dropped to 0.45 in July, implying an increase in the pensioners' standard of living relative to the previous month.

The ratio of the average pension to the average wage worsened in June, compared to the several previous months. The average pension paid out in January reached 80.4% of the average net wage, as compared with 68.9% in June, due to the faster dynamics of growth in wages than in pensions.

CHART

Real growth of net wages and the ratio of the consumer basket to the nominal net wage

- *real growth in %*
- *consumer basket – net wage ratio*
    - *real growth of net wages*

- *the ratio of the consumer basket to the nominal net wage*

Labor market

According to the data provided by the Labor Market Bureau of Serbia, unemployment in Serbia in June reached the figure of 820,000 persons, which is up by 7.38%, year-on-year. The unemployment rate in July was 27.9%. A downward trend in employment in the socially-owned sector continues - it is lower by 6.2% relative to the same period the previous year. The Minister for Labor and Employment in the Government of the Republic of Serbia pointed out that the private sector employs more workers than the socially-owned sector. According to the assessment made by the Republican Bureau for Information and Statistics (for March 2002) employment in the private sector in June 2002 was up by 11% year-on-year, while in small-sized enterprises it increased by 5.6%.

According to the latest data from May 2002, the total number of unemployment benefits recipients is 64,469 persons, where 55.7% lost their jobs as redundancies and 28.3% due to bankruptcy. The number of unemployment benefits recipients on the basis of lay-offs and bankruptcies in May 2002 was up by 4.35% and 14.05%, respectively, month-to-month. The average number of unemployment benefits recipients in the first five months of 2002 was up by 27.5%, compared to the average for the first five months of the previous year. The Draft of the Law on Employment foresees a reduction in rights of those who lose their jobs. This Law is intended to protect maximally older workers, and to reduce the rights of young workers in order to stimulate them to search for new jobs. Unemployment benefits for the case of losing one's job are to be reduced: those who are entitled to unemployment benefits will receive 60% of the average wage only for the first three months of unemployment, and 50% of the average wage subsequently. The Draft also predicts that workers with one to five years of service will be entitled to three-months of unemployment benefits, those with five to fifteen years of service will be entitled to six-months of unemployment benefits, those with 15 to 20 years of service will be entitled to nine-month unemployment benefits, while those with more than twenty years of service will be receiving unemployment benefits for twelve months. Older workers, who are divided by age groups and years of service in this Law, will be entitled to unemployment benefits up to 24 months. For example, a worker with at least 20 years of service and 61 years of age, for males, or 56 years of age, for female workers, will be entitled to unemployment benefits of this length of time, as well as the workers with more then 25 years of service and over 55 years of age.

CHART
Number of unemployment benefits recipients, Serbia excluding Kosovo & Metohija, I 1999. – V 2002.

- *number of recipients*

- *redundant labor*
- *bankruptcy*
- *Others (termination of employment out of different reasons)*

A demand for labor, i.e. the number of free working posts, decreased by 11.4% in the period January – June 2002 year-on-year, while the number of new jobs in the same period remained unchanged. Out of the total number of vacant posts in the period January – June 2002, 83.33% were filled through new employment. The ratio of free posts to the number of new jobs is improving, considering that it amounted to 73.88% in the same period of the previous year.

Production and services

Total industrial production in FR Yugoslavia in June was up by 0.4% month-to-month. The de-seasonal series registered further growth of 1.8% relative to May. With regard to the industrial production registered in June 2001, in June 2002 it dropped by 0.9%, while in comparison with the production achieved in June 1991, it is down by 56.1%. Industrial production in the period January - June 2002 was down by 1.4% year-on-year, or by 57.2% relative to the same period in 1991. Physical volume of production in Montenegro increased by 18.3% relative to May, while in Serbia, it decreased by 0.6%.

With regard to the structure of production by destination of consumption, production of capital goods registered an increase by 0.1% and of consumer goods by 2.0%, relative to May, while the production of intermediate goods decreased by 2.5%. In comparison to the achieved level of industrial production in June 2001, in June 2002 it was down by 1.2%, while in the first six months of this year it dropped by 0.8% year-on-year.

With regard to Classification of Economic Activities, the sector of mining and quarrying recorded a mild drop by 0.02%, the sector of manufacturing increased by 0.7% and the sector of electricity, water and gas supply decreased by 6% in June, relative to the previous month. The highest month-to-month growth was registered in the manufacture of food products and beverages (by 5.6%), the manufacture of tobacco products (by 1.3%), the manufacture of pulp, paper and paper processing (by 16.9%), the manufacture of rubber and plastic products (by 8.1%) and the manufacture of machinery and equipment, except electrical (by 12.1%).

Industrial production in Vojvodina in June was down by 5.7%, relative to May. The most important sector, manufacturing, registered a drop of 5.8% month-to-month. It decreased by 8.2% year-on-year, while industrial production in the first six months of this year was down by 0.9%, compared with the same period the previous year.

Retail trade turnover in the socially-owned sector in Serbia in June rose by 1% in current prices, while in terms of constant prices, it remained unchanged. Enterprises project a month-to-month increase of 5% in July. Retail trade stocks at the end of June 2002 were lower by 8% relative to May, while wholesale trade

stocks increased by 8%. Wholesale turnover in June 2002 rose by 2% month-on-month, both in constant and current prices. Enterprises project further upward trend in July with a 6% increase in turnover, compared to June.
Construction activity in Yugoslavia in the first five months of this year rose by 33% year-on-year, while effective hours of work decreased by 10.2% and the number of employed in construction was down by 9.9%.
A total number of tourist-nights at the level of FR Yugoslavia rose by 8.2% in June year-on-year. Accommodation facilities recorded a total of 1.1 million tourist-nights. Out of this figure, 184,000 tourist-nights were registered by foreign guests, which is up by as much as 61.6%, compared to the same month the previous year.

CHART
Industrial production index, 01.2000. – 06.2002.
2000 = 100 (Serbia)

Foreign trade

The commodity exports in Serbia in June were valued at US$ 153 million, while commodity imports were valued at US$ 391 million. This indicates a nominal growth in exports by 6% and in imports by over 25%, compared to the same month the previous year. With regard to the average monthly values of foreign trade, commodity exports in June were up by 9% and commodity imports by 6%. In terms of cumulative figures as of the beginning of this year, the situation is much more favorable – commodity exports in the first six months of 2002 were up by 11% year-on-year, while commodity imports grew by 12% over the period under consideration.
The registered balance between commodity imports and exports caused the deficit in commodity exchange to remain at the level similar to last year's. According to the G 17 Institute's projection (G17 Institute Economic Review, issue 5, Special edition, June 2002), based on econometric analysis of the time series of monthly data, the trade deficit is expected to be lower than last year, while the deficit achieved in the first half of this year is at the level of the upper limit of the medium value of the deficit projected for 2002.
With regard to the countries of exchange, although a deficit in trade with majority of countries deepened compared to the first half of the previous year, in particular with Italy, Sweden, Germany and Great Britain, it was considerably reduced in trading with some other countries, such as Bulgaria and Romania. A surplus in trade with Macedonia and Bosnia & Herzegovina also increased, and thus Serbia's total foreign trade deficit did not increase compared to the same period the previous year.
Germany and Italy are among the most important Serbian trade partners, both in exports and imports. However, the value of commodity exports to both countries slightly decreased, while imports considerably increased year-on-year, which is the reason for the much higher deficit in trade with these countries. The increase

in the trade deficit with each of these countries is valued at over US$ 40 million. Beside these countries, Macedonia and Bosnia & Herzegovina are Serbia's most important export markets and the only partners with whom we operate on a trade surplus, while the most important import partner is Russia. It is certainly encouraging that Serbia registered a considerable increase in the value of commodity exports with almost all neighboring countries and the former Yugoslav republics – by one-third with Croatia, by three-fourths with Slovenia and by 150% with Romania. As for imports, the highest growth was achieved in trade with Italy and the Czech Republic (by almost 25%), and with Slovenia – by 75%.

Such trends in foreign trade resulted in a mild change in the structure of exports and imports by regions in the world – countries in transition have become the most important export partners (48%), while the European Union ranks second, where these two markets account for over 92% of Serbian commodity exports. As for imports, the situation is reversed – EU's share is growing and amounts to over 42% at present, while the share of countries in transition is dropping; these countries are currently in second place with 40% of Serbian commodity imports.

With regard to the structure of foreign trade by destination of consumption, it largely remained unchanged where imports are concerned – reproduction material accounts for the largest share – about 56%, consumer goods account for over one-third, while equipment accounts for under 10% of Serbian commodity imports. On the part of exports, the structure has changed considerably. Reproduction materials still dominate in imports, but compared with the first six months of the previous year, their share decreased by 9% and accounts for less than two-thirds of total imports at present. On the other hand, the share of equipment increased (by 22%), as well as the share of consumer goods, so that they each account for almost one-fifth of Serbia's imports.

CHART
Imports in Serbia by destination of consumption

- *reproduction material*
- *consumer goods*
- *equipment*

Real appreciation of the exchange rate in the course of July largely resulted from more dynamic inflation growth compared to the previous period, due to correction in the price of electricity at the beginning of July. In nominal terms, the exchange rate increased by 1.5% relative to January, or by 2.2% compared to the 2001 average, indicating continuation of depreciation of the nominal exchange rate.

The level of total foreign currency reserves relative to the end of 2001 increased by half, mostly because of increases in the level of NBY reserves by almost 60%, while the reserves of authorized banks rose by one-third.

Monetary policy and public finance

Money supply in July was up by YuD 7.3 billion, which is an 8.16% increase month-to-month. At the same time, the structure of the money supply changed:

the share of cash money supply in M1 decreased, and amounts to 36.4% at present. In spite of this, cash money in circulation rose by 7.5%, i.e. by YuD 2.44 billion relative to June.

The coefficient of the coverage of money supply with foreign exchange reserves at the end of July was 119%. It is a decrease by 5 percentage points relative to the end of June and is equal to the coefficient at the end of 2001.

The average interest rate on short-term securities on the money market in June increased from 2.61% to 2.65% per month.

The collection of public revenues in July increased by 15.4% relative to June, reaching the amount of YuM 44.243 billion. The collection of budgetary revenues also rose by 17.5% month-to-month and reached YuM 28.856 billion.

The revenues of social insurance organizations in July were at the level of YuM 15.38 million, which is up by 11.6% relative to June. The highest increase was registered in health insurance organizations (23.3%) and revenues on the basis of contributions for old age pensions and disability insurance (7.8%). The revenues on the basis of unemployment insurance in July dropped by 14%, compared to June due to smaller budgetary subsidies.

Presentation of Law

Robert Sepi

A NEW FRAME FOR THE NEW PICTURE

The Broadcasting Law, which has been looked forward to for a long time, was finally adopted in the National Assembly of the Republic of Serbia in mid-July 2002. It is interesting that during the procedure for its adoption, the attention of media was equally centered on the work of the deputies in the National Assembly, and on the proposers of this Law, i.e. the working group that prepared its draft, which is not often the case in our country.

Adoption of this Law is only the first step toward the adoption of European and world standards; full completion of this task requires the adoption of the Law on Telecommunications. The Broadcasting Law, in its provisions, announces the enactment of this law; the offices set by the Broadcasting Law are obliged to cooperate with the telecommunications regulatory body. The primary objective of adoption of this law is to lay down some rules in the area of broadcasting activities.

The Law itself contains and regulates diverse issues: firstly, it sets up the conditions and the ways of pursuing broadcasting activities, as well as the procedure for obtaining a broadcasting license; then, it establishes an institutional framework, i.e. constitutes the offices in charge of the implementation of broadcasting policy and prescribes the measures and procedures for implementation of these measures.

In line with the recently established tradition of legislative activities in Serbia, this Law, within its introductory provisions, contains the basic principles and definitions of key terms used in it. Thus, in order to insure the conditions for efficient implementation and improvement of broadcasting policy, this Law stipulates the establishment of the Broadcasting Agency of the Republic. Although this Agency is described as an independent and autonomous organization exercising public competencies, the mechanisms which should guarantee such a position are not set out in detail. The Agency is established as having one body – the Agency Council. The Agency Council's Chairperson acts in the name and on behalf of the Agency, implying that this person, from the functional prospective, has the position of president of the Agency.

The competencies of the Agency are established as two-fold: the first set of competences are those which here can be called original competencies - they refer to strategic, controlling and administrative activities, while the second set of competencies are those which have been assigned to other state and public officials, e.g. protection of minors or enforcement of regulations on copyright and neighboring rights. The Law foresees that the national broadcasting development strategy should be created jointly by the Agency and the regulatory body in charge of telecommunications. It is especially interesting that developmental strategy thus created is not subject to any approval or consent.

The Agency is assigned to pursue several administrative competencies: some of these competences are pursued in the procedure of issuing broadcasting licenses, others in the procedure considering submissions filed by natural or legal persons if they deem that the contents of a broadcaster's program violate or endanger their individual or public interests, while a very important instrument at the disposal of the Agency is the possibility of pronouncing disciplinary measures. The Agency may issue two kinds of measures: a reprimand or a warning. The basic difference between these two measures is that a warning must expressly specify the obligation violated by the broadcaster and it must be published in the media.

With regard to the composition of the Council, the Law offers interesting solutions, both with regard to the procedure of selection of members and with regard to the duration of their tenures. The Council shall have nine members, out of which eight are appointed by the National Assembly on the basis of nominations by authorized nominators, while the ninth member is nominated by the previously appointed members of the Council. The National Assembly at the same time acts as an office which appoints members of the Council, and one of the authorized nominators. Many professional and social activities disqualify potential members from membership in the Agency, which ensures independence and autonomy in the work of the Agency. The independence and autonomy of their work is also guaranteed by the provision related to the issue of financing. Thus, funding of the Agency shall be carried out in keeping with a financial plan, which shall be adopted by the Council, with the approval of the National Assembly. The main sources of income are the funds collected from the fees paid by broadcasters for the right to broadcast programs. Another interesting solution aimed at maintaining equal influence of legislative and executive authorities is that the Government is in charge of setting the fee.

In order to have a right to broadcast a program, broadcasters must be issued a license by the Agency. The licenses can be issued for various forms of broadcasting: for ground broadcasting and for cable and satellite broadcasting. The Law itself distinguishes several types of broadcasters: public broadcasting service institutions, commercial broadcasters, civil sector broadcasters and broadcasters in regional or local communities. The broadcasting license issuance procedure is public and contains provisions which ensures its transparency. The licenses shall be issued for a defined time period, but may also cease to be valid prior to the expiry of its validity period under conditions precisely defined by the Law.

The Law establishes a public broadcasting service whose carriers are republican and provincial institutions which have the specific obligation of achieving public interests in public broadcasting services.

In its transitional and final provisions, the Law contains solutions under which the former public enterprise Radio Television Serbia shall cease to exist on the day of registration in the court register of a new public broadcasting service. Broadcasting organizations founded by local and regional communities cease to exist through the following procedure: they continue to operate with the obligation

of adjusting their work and business operations to the provisions of this Law within one year after the day on which this Law comes into effect.

Even before it was adopted, this Law was disputed both because of the possible character and composition of the Council, and because it introduces again mandatory subscription as a source of financing of public services. The procedure of establishing subscriptions is divided and thus the determination of the exact number of subscribers is assigned to the existing public enterprise “RTS” which prevents public dissatisfaction with additional burdens from being directed at the newly-founded services. By contrast, the list of new subscribers will be put together on the basis of the principle of mandatory registration, while the obligation of registration rests with the owners of radio and TV receivers.

Since the Law contains very restrictive provisions with regard to what, how and how much can be broadcast, a relatively long period of time is left for citizens and broadcasters to adjust to it. How the media picture in Serbia will look in the coming months is still uncertain, but if this law is enforced consistently, this picture will be considerably different from the present one. Especially interesting will be to see how broadcasters and their clients will accept this law, given that plenty of what is advertised now, for example, will not find its place in the upcoming program schemes.

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An overview of Occurrences in the European Union

THE SUMMIT OF THE EUROPEAN COUNCIL IN SEVILLE

On June 21 and 22, at the end of the six-month Spanish presidency in the European Union, the Summit of the European Council, which gathered all heads of states and governments of 15 EU member states, was held in Seville. The agenda of the Summit fully reflects the present situation in the EU: facing the accession of new members, in an attempt to preserve the level of achieved integration as operative and at the same time trying to make progress. That is why the key issues discussed in Seville referred to the future of the Union, enlargement of membership and asylum and immigration policies.

The future of the Union is a subject which has generated attention of the European public as of the Amsterdam Treaty (1997) and Nice Treaty (2000). This will also be the central topic of the announced International Conference in 2004, because in that year a new revision of the European Treaties should be adopted. The discussion includes the participation of the public at large through dialogues that are held in the Convention on the Future of the Union, which started to work in February 2002. This Convention is the main forum in which answers are being searched for to questions of institutional balance, democratic deficit, further integration, etc. However, as never before, EU citizens have taken part in the dialogue for the first time; they are sending their questions directly to the Convention over the Internet. The European Council confirmed the success of such an exchange of ideas, assessing as positive this general approach of the Convention.

In order to give its own contribution to institutional reform, the European Council in Seville paid special attention to the ways of organizing their own operations and the organization of the Ministerial Council. Thus, rules were adopted on the procedures of the European Council, a EU institutuion whose decisions are not binding, but it adopts general political guidelines for the establishment of the Union's policy. These rules which will come into effect by the end of 2002 prescribe that the European Council meets at least four times a year (two times during one country's presidency), with possible meetings outside of this framework. The Council of General and Foreign Affairs is in charge of preparation of these meetings; it establishes a working agenda. As opposed to the former practices, when summits took several days (as was the case with the Nice Summit which was prolonged to almost a week in December 2000), it is now precisely determined that these meetings are to last one day; more precisely, they are open to the public for one day, while all disputed issues are discussed behind closed doors the day before. The rules of the procedure of the European Council are restrictive also with regard to meetings with

representatives of third countries and international organizations (so-called “meetings at the margins of the summit”) because they are, for reasons of functionality of its own work, confined to special occasions only. Summits will present the results of their work as conclusions, which must be as concise as possible and which establish political guidelines and decisions adopted by the Council; these guidelines must be in compliance with the basic context of the work of the Union and set the precise procedure necessary for the implementation of these guidelines.

A particularly interesting question addressed in Seville referred to the adoption of measures related to the enhancement of the structure and functioning of the Council in preparations for the enlargement of EU membership – this concerns the Ministerial Council, a key legislative authority in the Union, composed of competent ministers of Member States. Instead of the General Council (exclusively composed of the Ministers of Interior of member states, which had major authority and the most work to do), these measures set up the Council of General and Foreign Affairs. This reshuffling serves to establish clear competencies of the new Council to act in two areas: firstly, preparation and implementation of the conclusions of the European Council, institutional and administrative issues, of functional / operative rules of the European Monetary Union; secondly, in the area of foreign affairs of the Union – common foreign and security policy, the policy of security and defense, foreign trade, cooperation for development and humanitarian aid. Besides this Council, its other formations (Ministerial Council is not only one; its composition depends on the agenda) which are established through these measures and which become the Annex to the Rules of the procedure of this organ are: the Council for economic and financial issues; judiciary and interior (including budgets for employment, social policy, health and issues of consumers); for competition, internal market, industry and research (including tourism), for transport, telecommunications and energy, for agriculture and the fishery; for environmental protection, for education, youth and culture. As far as functioning is concerned, the adopted measures foresee that the European Council adopts a long-term strategic program for the next three years of the Council’s activities, that is in line with the annual operative program of the Council’s activities (which proposes every December the states which preside the Union in the following year, after legislative initiatives proposed by the Commission). Thus the Union gets the possibility to know in advance which issues will be discussed during the following year, as well as space for preparation to readily respond to all assigned problems under conditions of enlarged membership.

Increased membership was another important issue addressed at the Seville Summit; the European Council came out with the conclusion that considerable progress had been made in accession negotiations, which are presently at their final stage. Namely, the majority of candidate countries are gradually completing the conditions set in Copenhagen in 1993 (stable democratic institutions, functional market economy, adoption of the acquis and establishment of adequate administrative structures); these countries are currently asked to bring their administrative and judicial capacities to a necessary level, which is a clear

sign that they turned from harmonization to the implementation of community heritage. For monitoring of the steps taken over by the candidate countries in preparation for membership to be as successful as possible, the Commission adopted a report on special action plans that primarily refer to the areas of the judiciary and the interior, and community requests related to veterinarian protection and well-being of plants. All these instruments should help the European Council to make a decision on the countries with which negotiations could be finished by the end of 2002 – namely, on the basis of these reports, as well as of certain recommendations that should be produced by the Commission, which has an active part in the negotiations. By the beginning of November, the Council has to sort out disputed issues related to finances in order to leave enough space for candidate countries to reach favorable results in this area by the end of the year. Thus, the Accessions Treaties (with their drafts underway) could be concluded already in Spring 2003, so that new members could take part in the elections for the European Parliament in 2004.

The European Council clearly defines what ten countries are the most serious candidates for membership: Cyprus, Malta, Hungary, Poland, the Slovak Republic, Lithuania, Latvia, Estonia, the Czech Republic and Slovenia. Of course, the Council keeps reminding that these countries will be admitted for membership "…if the current trend in negotiations and reforms is sustained". Negotiations with Bulgaria and Romania were very successful in the first half of this year, but for the continuation of reforms in these two countries an improvement is required in their accession strategy, additional financial aid and revised schedule of steps which these countries should take on their way toward membership. As far as Turkey is Concerned, although having welcomed the recently adopted reforms, the European Council was not very precise in establishing the further strategy of accession of this country, but concluded that at the next summit (to be held in Copenhagen during the Danish presidency) a decision could be made on a new stage of the accession procedure of Turkey.

The issue of asylum and immigration, which was set as an area under competence of the Union by the Amsterdam Treaty, seems to have generated major debates simply because it is not of equal importance for all EU member states, and they are therefore not equally enthusiastic in discussing it. In that sense this Summit resulted in the Council's conclusion that in the establishment of the area of freedom, security and justice in the Union, it is necessary to develop joint policy on the issues of asylum and immigration. However, the European Council cannot create this policy, but can only establish its main principles, which is an indicator of the inability of member states to reach consensus on this issue. The principles of the Union's policy toward this issue are that legitimate rights to better life of each individual must be adjusted to the capacities of the EU and its member states for admission of immigrants; at the same time, legal immigrants that reside on the territory of the Union must enjoy the same rights that are recognized on that territory. The fight against xenophobia and racism is very important. Refugees must be provided with urgent and efficient protection, while those who are not approved asylum rights must be provided with speedy return to their country of origin. The instruments introduced

for the implementation of these principles are diverse, but the European Council put special emphasis on the measures for combating illegal immigration, gradual establishment of adjusted and integrated administration of external borders, integration of immigration policy of the Union toward third states, etc.
As far as the remaining issues addressed at the Seville Summit are concerned, we will underline the conclusions on the increase in competition that will lead toward full employment (an important part of the agenda of each discussion in the Union) and foreign affairs (in terms of the transit of goods and people through the area of Kaliningrad, the state of affairs in the Middle East and relations between India and Pakistan, on which a special declaration was adopted at the Summit).
It can be concluded that this summit of the European Council did not yield any spectacular results and success in the search for answers to key issues facing the Union – this was just another step, although small, in the search for answer to the questions raised.

ECONOMIC NEWS

At the beginning of July, the European Commission presented a mid-term review of the EU's Common Agricultural Policy (CAP). The Commission is of the opinion that public expenditure for the farm sector must be better justified. Besides financial support to framers, more attention must be given to appropriate food quality, the preservation of the environment and animal welfare, landscapes, cultural heritage, as well as enhancement of social balance and equality. This review encourages farmers to produce at high standards for the highest market return, rather than for the sake of the maximum possible subsidy. For European consumers and taxpayers, the review will ensure better value for their money. To achieve these goals, the Commission proposes: to cut the link between production and direct payments; to make those payments conditional to environmental, food safety, animal welfare and occupational safety standards; to substantially increase EU support for rural development via a modulation of direct payments with exemptions for small farmers; to introduce a new farm audit system: new rural development measures to boost quality production, food safety, animal welfare and to cover the costs of the farm audit. As to the market policy, which remains an essential pillar of the CAP, the only change proposed by the Commission refers to reduced support and lower intervention prices. The proposed measures fully respect the objective policy direction and financial framework for the CAP set in Agenda 2000.
Franz Fischler, Commissioner for Agriculture, Rural Development and Fisheries stressed that rural areas in the EU cannot be expected to prosper, our environment to be protected, our farm animals to be well looked-after, and our farmers to survive, without paying for this. In the future, farmers will not be paid for overproduction, but for responding to what consumers want: safe and healthy food, quality production, animal welfare and a healthy environment. While guaranteeing farmers a stable income, the new system will free them from the straightjacket of having to gear their production toward subsidies. They will be able

to produce the crop or the type of meat where they see the best market opportunities – and not the highest subsidies. This also includes cutting back on red tape and form-filling for farmers and national administrations. The new system means better value for money for farmers, consumers and taxpayers alike. It will facilitate the enlargement process and will provide better adjustment of CAP to the WTO standards. Also, the new system does not distort international trade – on the contrary, it should improve opportunities for developing countries, as Mr. Fischler underlined.

The objectives of the CAP remain the same as those established in Berlin and enhanced at the European Summit in Göteborg: a competitive and market-oriented agricultural sector; environment-friendly production methods; quality products that consumers want; a fair standard of living and income stability for the agricultural community; rural development, etc. The essence of the new system is to achieve these goals with new policy tools.

European Commission President Romano Prodi has decided to appoint a High-Level Study Group to review all the economic instruments that currently exist at the EU level and to assess their suitability as proper instruments of economic governance in the context of enlargement. The Group will also examine whether or not new policies are needed so as to ensure growth, stability and cohesion. The report should be completed by Spring 2003.

On the eve of enlargement, there is a clear need to review all three facets of the European Union's economic system - the Internal Market and its complementary policies, the economic and monetary union and the EU budget - so as to ensure that the Union is equipped with the proper instruments of economic governance.

Enlargement is certainly an exceptional opportunity in Europe's quest towards greater economic efficiency. At the same time, however, it is clear that a larger and more diverse European Union requires a reconsideration of Community economic policies in order to be prepared to respond to this challenge.

Even if enlargement were not imminent, there would be a need for the reconsideration of EU's economic governance so as to improve the EU's performance in terms of growth and cohesion, while preserving stability. It is also crucial if the Union is to provide a meaningful contribution to global economic governance.

A contract for the reconstruction of the Sloboda (Liberty) Bridge in Novi Sad was signed at the end of July: this is the largest bridge seriously damaged by the 1999 NATO bombing of Yugoslavia. This EUR34 million contract is a part of the Danube Commission's EC-funded program for the restoration of full navigation of the Danube. The reconstruction of the Sloboda Bridge will be the largest project so far financed by EC funds in the FRY. The project will be managed by the European Agency for Reconstruction, which manages most EC-funded programs in the FRY.

Almost all candidate countries will be participating in the EUR 450 million EU program for enterprises this summer, well before they formally join the Union. Participation in this program means benefiting from services supplied by the 51 Euro Info Centers (EICs) that are open for business on their territory, and gaining access to EU funds, managed by the European Investment Fund, that help plug

financing gaps for start-ups and small businesses. It also means getting a bigger say in the EU-wide policy dialogue on how to improve the business environment, and helping to refine and benchmark enterprise policy practice. The candidate countries' determination to play their part in attaining the Union's socio-economic goals is clear from their endorsement of the European Charter for small businesses at a landmark conference in Maribor (Slovenia) on 23 April 2002. The Commission adopted decisions to open the program first to the Czech Republic, Latvia, Malta, Poland, Romania, Slovakia, and Slovenia on 17 May 2002, to Cyprus on 25 June, and to Bulgaria, Estonia, Hungary, and Lithuania on 19 July 2002. The decision on Turkey's participation is not expected before September 2002.

At its weekly meeting at the end of July, the European Commission discussed briefly a number of issues related to the likely sequencing of events in 2004. The target date of 1 January 2004 for enlargement was not questioned. The Commission will continue to put all possible efforts into the completion of negotiations with all candidate countries by the end of 2002 and is committed to the schedule for enlargement decided by the European Council. President Romano Prodi stated that enlargement is the top priority of the Commission. The Commission is working day and night to achieve it as soon and as successfully as possible.

The European Commission announced the adoption of a decision which makes available an additional EUR30 million to further cross-border and interregional cooperation programs for regions bordering candidate countries. This special support will enable them to further cross-border cooperation in fields such as transport, training, support for SMEs and intercultural cooperation.

The European Commission has published a series of country reports on agriculture in 12 Candidate Countries. These reports provide key statistical and economic information on the agricultural situation in each Candidate Country. Each report presents a general overview of the country and its economic development and an analysis of farming structures, the value of agricultural production, price relations and farm income. There are also descriptions of agricultural production (crops, livestock), the food industry and the characteristics of general and agricultural trade in these countries. The chapter on agricultural policy and budgets deals with issues such as domestic support measures and market access.